

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name City of Portland	County Ionia
Fiscal Year End June 30, 2007	Opinion Date December 6, 2007	Date Audit Report Submitted to State December 18, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

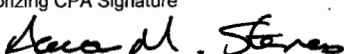
YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input checked="" type="checkbox"/>	N/A	
Certified Public Accountant (Firm Name) Abraham & Gaffney, P.C.		Telephone Number (517) 351-6836	
Street Address 3511 Coolidge Road, Suite 100		City East Lansing	State MI
Zip 48823			
Authorizing CPA Signature 		Printed Name Aaron M. Stevens, CPA	License Number 1101024055

**City of Portland
Ionia County, Michigan
FINANCIAL STATEMENTS
June 30, 2007**

City of Portland

Ionia County, Michigan

June 30, 2007

CITY COUNCIL AND ADMINISTRATION

James Barnes	Mayor
Patrick Duff	Mayor Pro-Tem
Joel Van Slambrouck	Council member
Julie Clement	Council member
Robert Baldyga	Council member
Thomas Dempsey	City Manager
Yvonne Miller	City Clerk
Brenda Schrauben	Finance Director/ Treasurer
Lisa Pung	City Assessor
William Davis	City Attorney

City of Portland

TABLE OF CONTENTS

June 30, 2007

	<u>PAGE</u>
INDEPENDENT AUDITOR'S REPORT	i-ii
MANAGEMENT'S DISCUSSION AND ANALYSIS	iii-xii
BASIC FINANCIAL STATEMENTS	
Government-wide Financial Statements	
Statement of Net Assets	1
Statement of Activities	2
Fund Financial Statements	
Governmental Funds Balance Sheet	3-4
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	5
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	6-7
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	8
Statement of Net Assets - Proprietary Funds	9-10
Statement of Revenues, Expenses, and Changes in Fund Net Assets - Proprietary Funds	11-12
Statement of Cash Flows - Proprietary Funds	13-16
Statement of Net Assets - Fiduciary Funds	17
Notes to Financial Statements	18-39
REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedule - General Fund	40-42
Budgetary Comparison Schedule - City Income Tax Fund	43
Budgetary Comparison Schedule - Major Street Fund	44
OTHER SUPPLEMENTARY INFORMATION	
Combining Balance Sheet - Nonmajor Governmental Funds	45-46
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds	47-48
COMPONENT UNIT FUND	
DOWNTOWN DEVELOPMENT AUTHORITY	
Balance Sheet	49
Reconciliation of the Balance Sheet to the Statement of Net Assets	50
Statement of Revenues, Expenditures, and Changes in Fund Balance	51
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of the Governmental Fund to the Statement of Activities	52
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	53-55

Principals

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council
City of Portland
Portland, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, the discretely presented component unit, and the aggregate remaining fund information of the City of Portland as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, the discretely presented component unit, and the aggregate remaining fund information of the City of Portland as of June 30, 2007, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2007, on our consideration of the City of Portland's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information, as identified in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Portland's basic financial statements. The accompanying other supplementary information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

December 6, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2007

The following is a discussion and analysis of City of Portland's (the City's) financial performance and position, providing an overview of the activities for the year ended June 30, 2007. This analysis should be read in conjunction with the *Independent Auditors Report* and with the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

Government-wide:

- Total net assets were \$27,936,822 (excluding component units).
- Governmental activities net assets were \$13,730,354.
- Business-type activity net assets were \$14,206,468.
- Component Unit net assets were \$1,034,505.

Fund Level:

- At the close of the fiscal year, the City's governmental funds reported a combined ending fund balance of \$1,563,536 with \$456,400 being reserved, designated, or otherwise earmarked for specific purposes (cemetery perpetual care, debt service).
- The General Fund realized \$33,358 more in revenues and other financing sources than anticipated for the fiscal year. The General Fund operations also expended \$320,563 less than appropriated.
- Overall, the General Fund balance increased by \$17,841 to \$568,237 with \$268,237 being undesignated and available for general purposes.

Capital and Long-term Debt Activities:

- The total long-term debt for the primary government was \$2,924,154, an increase of \$868,905 from the prior year.
- The City remains well below its authorized legal debt limit. The City debt limit, as defined by statute, is ten percent (10%) of the state equalized property values, which currently equals \$10,838,823.
- The total additions to the capital asset schedule for the primary government were \$3,689,692. Significant capital purchases during the year included the purchase of 58 acres at the southwest corner of Grand River Avenue and Cutler Road, the Boardwalk downtown; the addition of water and sewer lines and a sewer lift station to serve the MDOT rest area on I-96; the replacement of the water and sewer systems in Charlotte Highway; street improvements to Charlotte and Cutler; repair of the Quarterline Street storm sewer at Detroit that was not included in the prior year. Also included were planning and design costs associated with the expansion of the Electric Diesel Plant on Grand River Avenue and the addition of a warehouse/garage to be constructed on Grant Street. The City expanded its fleet of vehicles and equipment with the purchase a new bucket truck and skid steer by the Electric Department and the Motor Pool's purchase of a new pick-up truck for the Parks, Recreation and Cemetery Director's use.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's annual financial report. The annual financial report of the City consists of the following components: 1) *Independent Auditor's Report*; 2) *Management's Discussion and Analysis* and 3) the *Basic Financial Statements* (government-wide financial statements, fund financial statements, notes to the financial statements), 4) *Required Supplementary Information* such as budget to actual comparisons for the General Fund and major Special Revenue Funds, and 5) *Other Supplementary Information* including combining financial statements for all nonmajor governmental funds and other funds and other financial data.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2007

Government-wide Financial Statements (Reporting the City as a Whole)

The set of government-wide financial statements are made up of the Statement of Net Assets and the Statement of Activities, which report information about the City as a whole, and about its activities. Their purpose is to assist in answering the question, is the City, in its entirety, better or worse off as a result of this fiscal year's activities? These statements, which include all nonfiduciary assets and liabilities, are reported on the *accrual basis of accounting*, similar to a private business. This means revenues are accounted for when they are *earned* and expenses are accounted for when *incurred*, regardless of when the actual cash is received or disbursed.

The Statement of Net Assets (page 1) presents all of the City's assets and liabilities, recording the difference between the two as "net assets". Over time, increases or decreases in net assets measure whether the City's financial position is improving or deteriorating.

The Statement of Activities (page 2) presents information showing how the City's net assets changed during 2006/2007. All changes in net assets are reported based on the period for which the underlying events giving rise to the change occurs, regardless of the timing of related cash flows. Therefore, revenue and expenses are reported in these statements for some items that will only result in cash flows in future financial periods, such as uncollected taxes and earned but unused employee vacation leave.

Both statements report the following activities:

- **Governmental Activities** - Most of the City's basic services are reported under this category. Taxes, charges for services and intergovernmental revenue primarily fund these services. Most of the City's general government departments, public safety, public works, health and welfare (ambulance), economic development, city improvements, street improvements, recreation activities, and other City wide elected official operations are reported under these activities.
- **Business-type Activities** - These activities operate like private businesses. The City charges fees to recover the cost of the services provided. The Electric Light and Power System, the Sewage Disposal System and Water System Fund and are examples of these activities.
- **Discretely Presented Component Units** - Discretely Presented Component units are legally separate organizations for which the City Council and Administration appoints a majority of the organization's policy board and there is a degree of financial accountability to the City. One organization is included as a discretely presented component unit: the Downtown Development Authority.

As stated previously, the government-wide statements report on an *accrual* basis of accounting. However, the governmental funds report on a *modified accrual* basis. Under modified accrual accounting, revenues are recognized when they are measurable and available to pay obligations of the fiscal period; expenditures are recognized when they are due to be paid from available resources.

Because of the different basis of accounting between the fund statements (described below) and the government-wide statements, pages 5 and 8 present reconciliations between the two statement types. The following summarizes the impact of transitioning from modified accrual to full accrual accounting:

- Capital assets used in governmental activities (depreciation) are not reported on the fund financial statements of the governmental fund. Capital assets and depreciation expense are reported on the government-wide statements.
- Capital outlay spending results in capital assets on the government-wide statements, but is reported as expenditures on the fund financial statements of the governmental funds.
- Internal service funds are reported as governmental activities on the government-wide statements, but are reported as proprietary funds on the fund financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2007

- Long-term liabilities, such as amounts accrued for sick and annual leave (compensated absences), etc. appear as liabilities on the government-wide statements; however they will not appear on the fund financial statements unless current resources are used to pay a specific obligation.
- Long-term debt proceeds are reported as liabilities on the government-wide statements, but are recorded as other financing sources on the fund financial statements.

Fund Financial Statements (Reporting the City's Major Funds)

The fund financial statements, which begin on page 3, provide information on the City's significant (major) funds, and aggregated nonmajor funds. A fund is a fiscal and accounting entity with a self-balancing set of accounts that the City uses to keep track of specific sources of funding and spending for a particular purpose. Traditional users of governmental financial statements will find the Fund Financial Statements presentation more familiar. The *basic financial statements* report major funds as defined by the Government Accounting Standards Board (GASB) in separate columns. Statement 34 defines a "major fund" as the General Fund, and any governmental or enterprise fund which has either total assets, total liabilities, total revenues or total expenditures/expenses that equal at least ten (10) percent of those categories for either the governmental funds or the enterprise funds and where the individual fund total also exceeds five (5) percent of those categories for governmental and enterprise funds combined. The major funds for City of Portland include the General Fund, the City Income Tax Fund, the Major Street Fund, the Boardwalk Project Fund, the Electric Light and Power System Fund, the Sewage Disposal System Fund and the Water System Fund. All other funds are classified as nonmajor funds and are reported in aggregate by the applicable fund type.

The City's funds are divided into three categories - governmental, proprietary, and fiduciary - and use different accounting approaches:

- **Governmental Funds** - Most of the City's basic services are reported in the governmental funds. The focus of these funds is how cash and other financial assets that can be readily converted to cash, flow in and out during the course of the fiscal year and how the balances left at year-end are available for spending on future services. Consequently, the governmental fund financial statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that may be expended in the near future to finance the City's programs. Governmental funds include the *General Fund*, as well as *Special Revenue Funds* (use of fund balance is restricted, e.g. income tax, major street, local street, ambulance and recreation funds), *Capital Projects Funds* (used to report major capital acquisitions and construction, e.g. the Boardwalk Project fund), and *Debt Service Funds* (accounts for resources used to pay long-term debt principal and interest, e.g. the special assessments fund).
- **Proprietary Funds** - Services for which the City charges customers (whether outside the City structure or a City department) a fee are generally reported in proprietary funds. Proprietary funds use the same *accrual* basis of accounting used in the government-wide statements and by private business. There are two types of proprietary funds. *Enterprise funds* report activities that provide supplies and/or services to the general public. An example is the Sewer Disposal System Fund. *Internal Service funds* report activities that provide supplies or service to the City's other operations, such as the Motor Pool Fund. Internal Service funds are reported as governmental activities on the government-wide statements.
- **Fiduciary Funds** - The City may act as a trustee or fiduciary in certain instances. It is also responsible for other assets that, because of trust arrangements, can only be used for the trust beneficiaries. The City's fiduciary activities are reported in the separate Statement of Net Assets on page 17. These funds, which include trust and agency funds, are reported using the accrual basis of accounting. The government-wide statements *exclude* the fiduciary fund activities and balances because these assets are not available to the City to fund its operations.

City of Portland

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2007

Notes to the Financial Statements

The Notes to the Financial Statements provide additional information that is essential to a full understanding of the detail provided in the government-wide and fund financial statements. The Notes can be found beginning on page 18 of this report.

Required Supplementary Information

Following the Basic Financial Statements is additional Required Supplementary Information (RSI), which further explains and supports the information in the financial statements. RSI includes budgetary comparison schedules for the General Fund and the major special revenue funds.

Other Supplementary Information

Other Supplementary Information includes combining financial statements for nonmajor governmental funds. These funds are added together, by fund type, and are presented in aggregate single columns in the appropriate basic financial statements.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

As previously stated, City of Portland combined net assets were \$27,936,822 at the end of this fiscal year's operations. The net assets of the governmental activities were \$13,730,354; the business type activities were \$14,206,468.

Net Assets as of June 30, 2007 and 2006

	Governmental Activities		Business-type Activities		Total Primary Government	
	2007	2006	2007	2006	2007	2006
Current and Other Assets	\$ 1,950,068	\$ 2,378,647	\$ 4,516,640	\$ 4,687,966	\$ 6,466,708	\$ 7,066,613
Capital Assets	13,188,112	10,938,322	11,993,934	11,537,563	25,182,046	22,475,885
Total Assets	\$ 15,138,180	\$ 13,316,969	\$ 16,510,574	\$ 16,225,529	\$ 31,648,754	\$ 29,542,498
Current Liabilities	\$ 210,400	\$ 472,223	\$ 577,167	\$ 563,279	\$ 787,567	\$ 1,035,502
Noncurrent Liabilities	1,197,426	98,699	1,726,939	1,879,964	2,924,365	1,978,663
Total Liabilities	\$ 1,407,826	\$ 570,922	\$ 2,304,106	\$ 2,443,243	\$ 3,711,932	\$ 3,014,165
Net Assets						
Invested in Capital Assets (Net of related debt)	\$ 12,033,112	\$ 10,852,569	\$ 10,284,062	\$ 9,622,691	\$ 22,317,174	\$ 20,475,260
Restricted	660,316	862,886	300,583	261,529	960,899	1,124,415
Unrestricted	1,036,926	1,030,592	3,621,823	3,898,066	4,658,749	4,928,658
Total Net Assets	\$ 13,730,354	\$ 12,746,047	\$ 14,206,468	\$ 13,782,286	\$ 27,936,822	\$ 26,528,333

The following condensed financial information was derived from the government-wide Statement of Activities and reflects how the City's primary government net assets changed during the fiscal year:

City of Portland

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2007

Changes in Net Assets for the Fiscal Year Ending June 30, 2007 and 2006

	Governmental Activities		Business-type Activities		Total	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Revenues						
Program Revenues						
Charges for Services	\$ 1,268,472	\$ 1,189,812	\$ 4,699,937	\$ 4,717,284	\$ 5,968,409	\$ 5,907,096
Grants and Contributions	1,072,623	496,339	-	1,732,434	1,072,623	2,228,773
General Revenues						
Property Taxes	1,051,327	982,917	-	-	1,051,327	982,917
State Shared Revenue	446,198	450,576	-	-	446,198	450,576
City Income Taxes	744,071	686,135	-	-	744,071	686,135
Investment Earnings	90,177	84,073	115,510	77,642	205,687	161,715
Miscellaneous	38,719	38,090	126,481	252,306	165,200	290,396
Transfers	88,025	42,981	(88,025)	(42,981)	-0-	-0-
Total Revenues	4,799,612	3,970,923	4,853,903	6,736,685	9,653,515	10,707,608
Expenses						
General Government	978,002	999,883	-	-	978,002	999,883
Public Safety	960,031	1,061,054	-	-	960,031	1,061,054
Public Works	951,018	651,566	-	-	951,018	651,566
Health and Welfare	406,855	465,054	-	-	406,855	465,054
Community and Economic Develop.	163,241	54,505	-	-	163,241	54,505
Recreation and Cultural	270,377	319,026	-	-	270,377	319,026
Other	19,804	3,954	4,251,849	4,099,803	4,271,653	4,103,757
Total Expenses	3,749,328	3,555,042	4,251,849	4,099,803	8,001,177	7,654,845
Increase in Net Assets	1,050,284	415,881	602,054	2,636,882	1,652,338	3,052,763
Restated Net Assets - Beginning	12,680,070	12,330,166	13,604,414	11,145,404	26,284,484	23,475,570
Net Assets - Ending	\$ 13,730,354	\$ 12,746,047	\$ 14,206,468	\$ 13,782,286	\$ 27,936,822	\$ 26,528,333

Governmental Activities:

The result of 2006/2007 governmental activity was an increase of \$1,050,284 in net assets to \$13,730,354. Of the total governmental activities' net assets, \$12,033,112 is invested in capital assets less related debt, \$660,316 is reported as restricted, meaning these assets are legally committed for a specific purpose through statute, or by another authority outside the City government. The balance of \$1,036,926 is listed as unrestricted, having no legal commitment.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2007

Revenues:

The three largest revenue categories were charges for services at 26.4%, property taxes at 21.9%, and Grants and Contributions at 22.3%. Charges for services, which reimburse the City for specific activities, are the largest source of governmental activity revenue. Examples include items such as ambulance fees, township fire fees, recreation fees and contributions, administrative charges, permits and motor pool equipment rental. The City levied a property tax millage for the year ended June 30, 2007, for general government operations at 13.7164 mills, which is not assigned to any particular activity. Grants and contributions include capital grants (e.g. MSHDA Rental Rehabilitation Grant used for the Boardwalk, MDEQ Wellhead Protection Grant) and State operating assistance (e.g. State shared revenues).

Expenses:

General government is the largest governmental activity, expending approximately 26% of the governmental activities total and includes general government departments (e.g. council, community promotions, city manager, elections, general administration, assessor, city hall maintenance, and cemetery operations). Public Safety is the second largest area, expending approximately 26% of the governmental activities total on law enforcement, fire protection and code enforcement. Public Works expended approximately 25% of the governmental activities total and would be higher if capital outlay charged to this function in the funds were not shown as capital assets in the government-wide financial statements.

Business-type Activities:

Net assets in business-type activities were increased by \$602,054 during fiscal year 2006/2007. Of the business-type activities' net assets, \$10,284,062 is invested in capital assets net of related debt, \$300,583 is reported as restricted, meaning these assets are legally committed for a specific purpose through statute, or by another authority outside the City government. The balance of \$3,621,823 is listed as unrestricted, having no legal commitment.

FINANCIAL ANALYSIS OF THE CITY'S MAJOR AND NONMAJOR FUNDS

As the City completed 2006/2007, its governmental funds reported *combined* fund balances of \$1,563,536. This is a net decrease of \$43,176. The net changes are summarized in the following chart:

	General Fund	City Income Tax	Major Street	Boardwalk Project	Nonmajor Governmental Funds	Total Governmental Funds
Fund Balance 06/30/06	\$ 616,373	\$ 516,422	\$ 94,288	\$ 107,385	\$ 338,221	\$ 1,672,689
Prior Period Adjustment	\$ (65,977)	\$ -	\$ -	\$ -	\$ -	\$ (65,977)
Fund Balance 06/30/07	\$ 568,237	\$ 257,758	\$ 80,303	\$ 101,080	\$ 556,158	\$ 1,563,536
Net Change	\$ 17,841	\$ (258,664)	\$ (13,985)	\$ (6,305)	\$ 217,937	\$ (43,176)

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2007

General Fund:

The General Fund is the chief operating fund of the City. Unless otherwise required by statute, contractual agreement or Board policy, all City revenues and expenditures are recorded in the General Fund. As of June 30, 2007, the General Fund reported a fund balance of \$568,237. This amount is a net decrease of \$48,136 from the fund balance of \$616,373 reported as of June 30, 2006. The 2006/2007 original budget had called for a \$143,330 use of fund balance.

The General Fund 2006/2007 revenues exceeded 2006/2007 expenditures by \$17,841 due to reduced spending (personnel related expenses in the general administration, police department and parks department; unexpended dollars budgeted for replacing the City Hall phone system and capital improvements in parks, cemetery and fire departments) and increased revenues (more revenue from property taxes, higher interest earnings on deposits, and additional reimbursements from ambulance collections). It should be noted that the General Fund also supports the operations of other funds including the Recreation Fund and Boardwalk Project Fund, which received \$17,500 and \$70,000, respectively, in support from the General Fund.

General Fund Budgetary Highlights:

The City of Portland's budget is a dynamic document. Although adopted in May (prior to the start of the year), the budget is routinely amended during the course of the year to reflect changing operational demands.

Actual General Fund revenue and other financing sources totaled \$3,301,221, \$33,358 above the final amended budget.

The \$33,358 excess in budgeted General Fund Revenue was due to higher than anticipated property tax collections (up \$13,723); increased interest earning on deposits (up \$14,038), higher than anticipated revenue reimbursements (up \$27,314). These factors helped General Fund revenue exceed the budgeted amount despite the fact that State sales tax payments were \$7,173 less than budgeted; the cable companies franchise fees were not paid during the fiscal year (\$18,000 was budgeted) and reimbursements from the townships for fire protection were less than budgeted (down \$9,022).

The City's original General Fund expenditures and other financing uses budget was increased by \$1,292,750 during 2006/2007. The increase can be attributed to increases in capital outlay of \$1,215,000 for the purchase of the 58 acres at Grand River and Cutler, a transfer of \$70,000 to the Boardwalk Fund and a reduction of \$2500 in the transfer to the Recreation Fund.

Actual City expenditures and other financing uses for 2006/2007 were \$320,563 below the amended budget. The additions to the original budget were offset by reduced spending and deferral of some planned capital purchases because of financial uncertainty associated with State cuts to revenue sharing and the desire to increase fund balance for local match on future grant projects. The City also experienced some savings because certain expenses came in lower than anticipated and personnel levels were below the amounts budgets (e.g. police, park & rec) or volunteers were available to reduce so that less money was spent on seasonal part-timers (e.g. GM volunteers).

Overall general fund expenditures were down due to reduced spending in the following areas:

- \$57,910 less than planned expenditures in the Parks and Recreation Department.
- \$86,758 less than planned expenditures in the Police Department.
- \$20,670 less than planned expenditures in the Fire Department.
- \$19,052 less than planned expenditures in the Code Enforcement Department.
- \$36,775 less than planned expenditures in the Cemetery Department.
- \$46,779 less than planned expenditures for General Administration.
- \$15,536 less than planned expenditures for City Hall Building and Grounds.
- \$100 less than planned expenditures for Elections.
- \$7,800 less than planned expenditures for Assessing Department.

City of Portland

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2007

- \$3,269 less than planned expenditures for the City Manager Department
- \$2,106 less than planned expenditures for Community Promotions.
- \$2,341 less than planned expenditures for Council Boards and Commissions.
- \$14,041 less than planned for street lighting
- \$7,915 less than planned for capital outlay

City Income Tax Fund

As of June 30, 2007, the City Income Tax Fund reported a fund balance of \$257,758, a decrease of \$258,664 from the prior year. The total fund balance is undesignated/unreserved. **While the City finance statements show these funds as undesignated, the City has used the income tax funds exclusively for the improvement of streets, sidewalks, curb, gutter, street lighting, parking areas, associated utilities and their appurtenances.**

Major Street Fund

As of June 30, 2007, the Major Street Fund reported a fund balance of \$80,303, which is a decrease of \$13,985 from the prior year. The entire balance of \$80,303 is undesignated/unreserved.

Boardwalk Project Fund

As of June 30, 2007, the Boardwalk Project Fund reported a fund balance of \$101,080, which is a decrease of \$6,305 from the prior year. The entire balance of \$101,080 is undesignated/unreserved.

Enterprise Funds

As the City completed 2006/2007, its enterprise funds reported *combined* net assets of \$14,206,468. This is a net increase of \$424,182 resulting from current year operations. The net changes are summarized in the following chart.

	Electric Light and Power System Fund	Sewage Disposal System Fund	Water System Fund	Nonmajor Enterprise Fund	Total
Net Assets 06/30/06	\$ 7,345,201	\$ 2,466,034	\$ 3,969,546	\$ 1,505	\$ 13,782,286
Prior Period Adjustment	\$ -	\$ (88,936)	\$ (88,936)	\$ -	\$ (177,872)
Net Assets 06/30/07	\$ 7,806,190	\$ 2,357,409	\$ 4,042,717	\$ 152	\$ 14,206,468
Net Change	\$ 460,989	\$ (19,689)	\$ 162,107	\$ (1,353)	\$ 602,054

Electric Light and Power System Fund:

As of June 30, 2007, the Electric Light and Power System Fund reported net assets of \$7,806,190, an increase of \$460,989 from the prior year. Of the entire net assets, \$5,782,123 is invested in capital assets, \$70,000 is reported as being reserved due to the requirements of Section 12.9 of the City Charter, \$188,308 is restricted for debt service, and \$1,765,759 is unrestricted.

Sewage Disposal System Fund:

As of June 30, 2007, the Sewer Fund reported net assets of \$2,357,409, a decrease of \$19,689 from the prior year. Of the entire net assets, \$2,016,545 is invested in capital assets, net of related debt, \$42,275 is restricted for debt service, and \$298,589 is unrestricted.

City of Portland

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2007

Water System Fund:

As of June 30, 2007, the Water System Fund reported net assets of \$4,042,717, a net increase of \$162,107 from the prior year. Of the entire net assets, \$2,485,394 is invested in capital assets, net of related debt and \$1,557,323 is unrestricted.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets - At the end of Fiscal Year 2006/2007, the City had invested \$25,182,046, and \$2,520,424 for the component units, net of accumulated depreciation, in a broad range of capital assets (see table below). Additional information related to capital assets is detailed in Note G of the Financial Statements. Net Book value of capital assets at June 30, 2007 was as follows:

	Governmental Activities	Business- type Activities	Component Unit DDA	Total
Land	\$ 2,268,752	\$ -	\$ -	\$ 2,268,752
Construction in progress	754,424	-	29,816	784,240
Buildings, net	301,579	-	2,080,800	2,382,379
Vehicles and equipment, net	552,341	-	-	552,341
Electric system, net	-	6,082,123	-	6,082,123
Sewer system, net	-	2,191,545	-	2,191,545
Water system, net	-	3,720,266	-	3,720,266
Infrastructure Streets & Bridges, net	9,311,016	-	409,808	9,720,824
Capital assets, net	\$ 13,188,112	\$11,993,934	\$ 2,520,424	\$ 27,702,470

Long-term Debt - As of June 30, 2007, the City had \$2,924,154 in long-term debt outstanding for the primary government. This level of net obligation is \$868,905 more than the obligation recorded as of June 30, 2006.

Outstanding Debt as of June 30, 2007:

	<u>July 1, 2006</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2007</u>
Primary Government				
Governmental Activities				
Special Assessment Bonds	\$ 60,000	\$ -	\$ 5,000	\$ 55,000
Capital Leases Payable	8,800	-	8,800	-0-
Notes Payable	16,953	-	16,953	-0-
Compensated Absences	54,624	106,095	101,437	59,282
Installment Purchase Agreement	-	1,100,000	-	1,100,000
Business-type Activities				
Elec. 1994 Rev. Bonds	400,000	-	100,000	300,000
2002 Note Payable	35,000	-	35,000	-0-
Sewer 1995 Rev. Bonds	190,000	-	15,000	175,000
Water 2004 DWRP Bonds	1,289,872	-	55,000	1,234,872
Total Primary Government	2,055,249	1,206,095	337,190	2,924,154
Component Unit				
General Obligation Bonds	1,770,000	-	130,000	1,640,000
Total Reporting Entity	\$ 3,825,249	\$ 1,206,095	\$ 467,190	\$ 4,564,154

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2007

A more detailed discussion of the City's long-term debt obligations is presented in Note H to the financial statements.

CITY OF PORTLAND GOVERNMENT ECONOMIC OUTLOOK:

- State revenue sharing is projected to remain flat for fiscal year 2007-2008 but may face cuts due to state budget problems.
- Health and dental insurance premiums continue to rise much faster than the rate of inflation (10.5%-15.6%)
- Retirement costs are increasing due to increased longevity of retirees, pension benefit adjustments for inflation and poor stock market performance over the last several years. Pension cost increased 4.6% to 13.12% depending upon the division.
- Fuel and other utility costs are rising much faster than the rate of inflation.
- COLA wage increases were budgeted at 3%.
- Investment earnings have increased due to higher fund balances on deposit and higher market interest rates. Average interest earned last year was 4.85% .
- The City's Workers Compensation costs have continued to decrease due a reduction in the City's experience modification factor because there have been no loss time accidents in the past year.
- Hazard/Liability Insurance costs have decreased by 1% this year.

These factors were considered in adopting the Budget for 2007/2008. A usage of \$127,887 of the City's fund balance was included to balance the General Fund Budget, although it is estimated that the deficit will be less due to sound financial processes and anticipated increases in the taxable value of property in the City.

The overall local economy remains stable with modest growth. Using the City income tax as one economic indicator, revenues increased from \$686,135 in 2006 to \$744,071 in 2007 an increase of approximately 8.5% . Over the past year the City's governmental and business type activity resulted in an increase of \$1,408,489 in net assets. The City's sound financial condition and ability to provide a full range of high quality municipal services coupled with its location along I-96 between to larger metropolitan markets supports a favorable outlook for continued stability and modest growth.

CONTACTING THE CITY

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If there are questions about this report, or a need for additional information, contact the City of Portland's Treasurer's Office at (517) 647-2933.

BASIC FINANCIAL STATEMENTS

City of Portland

STATEMENT OF NET ASSETS

June 30, 2007

	Primary Government			Component
	Governmental	Business-type	Total	Unit
	Activities	Activities		(DDA)
ASSETS				
Current assets				
Cash and cash equivalents	\$ 1,572,308	\$ 2,895,815	\$ 4,468,123	\$ 58,386
Receivables	178,110	645,796	823,906	-
Due from other governmental units	199,650	-	199,650	-
Inventories	-	374,068	374,068	-
Total current assets	1,950,068	3,915,679	5,865,747	58,386
Noncurrent assets				
Cash and cash equivalents - restricted	-	600,961	600,961	114,902
Capital assets not being depreciated	3,023,176	331,917	3,355,093	29,816
Capital assets being depreciated, net	10,164,936	11,662,017	21,826,953	2,490,608
Total noncurrent assets	13,188,112	12,594,895	25,783,007	2,635,326
TOTAL ASSETS	15,138,180	16,510,574	31,648,754	2,693,712
LIABILITIES				
Current liabilities				
Accounts payable	76,712	314,890	391,602	-
Accrued liabilities	91,561	27,418	118,979	-
Accrued interest payable	25,271	22,393	47,664	19,207
Customer deposits	-	7,006	7,006	-
Current portion of compensated absences	11,856	35,460	47,316	-
Current portion of long-term debt	5,000	170,000	175,000	135,000
Total current liabilities	210,400	577,167	787,567	154,207
Noncurrent liabilities				
Customer deposits payable from restricted assets	-	178,202	178,202	-
Noncurrent portion of compensated absences	47,426	8,865	56,291	-
Noncurrent portion of long-term debt	1,150,000	1,539,872	2,689,872	1,505,000
Total noncurrent liabilities	1,197,426	1,726,939	2,924,365	1,505,000
TOTAL LIABILITIES	1,407,826	2,304,106	3,711,932	1,659,207
NET ASSETS				
Invested in capital assets, net of related debt	12,033,112	10,284,062	22,317,174	880,424
Restricted for				
Utilities	-	70,000	70,000	-
Capital improvement	23	-	23	-
Debt service	-	230,583	230,583	95,695
Other purposes	660,293	-	660,293	-
Unrestricted	1,036,926	3,621,823	4,658,749	58,386
TOTAL NET ASSETS	\$ 13,730,354	\$ 14,206,468	\$ 27,936,822	\$ 1,034,505

See accompanying notes to financial statements.

City of Portland
STATEMENT OF ACTIVITIES
Year Ended June 30, 2007

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Component Unit (DDA)	
					Governmental Activities	Business-type Activities		Total
Primary government								
Governmental activities								
General government	\$ 993,002	\$ 464,100	\$ 1,660	\$ -	\$ (527,242)	\$ -	\$ (527,242)	\$ -
Public safety	960,031	137,505	8,494	-	(814,032)	-	(814,032)	-
Public works	951,018	5,803	290,268	14,931	(640,016)	-	(640,016)	-
Health and welfare	406,855	472,103	-	-	65,248	-	65,248	-
Community and economic development	148,241	105,753	-	-	(42,488)	-	(42,488)	-
Recreation and cultural	270,377	83,208	19,590	737,680	570,101	-	570,101	-
Interest on long-term debt	19,804	-	-	-	(19,804)	-	(19,804)	-
Total governmental activities	3,749,328	1,268,472	320,012	752,611	(1,408,233)	-0-	(1,408,233)	-0-
Business-type activities								
Electric, Light, and Power System	3,101,346	3,434,001	-	-	-	332,655	332,655	-
Sewage Disposal System	576,151	566,510	-	-	-	(9,641)	(9,641)	-
Water System	484,188	610,908	-	-	-	126,720	126,720	-
Refuse	90,164	88,518	-	-	-	(1,646)	(1,646)	-
Total business-type activities	4,251,849	4,699,937	-0-	-0-	-0-	448,088	448,088	-0-
Total primary government	<u>\$ 8,001,177</u>	<u>\$ 5,968,409</u>	<u>\$ 320,012</u>	<u>\$ 752,611</u>	(1,408,233)	448,088	(960,145)	-0-
Component unit								
Downtown Development Authority	<u>\$ 314,026</u>	<u>\$ -0-</u>	<u>\$ 37,000</u>	<u>\$ -0-</u>	-0-	-0-	-0-	(277,026)
General revenues								
Property taxes					1,051,327	-	1,051,327	290,269
State shared revenue					446,198	-	446,198	-
City income taxes					744,071	-	744,071	-
Investment earnings					90,177	115,510	205,687	3,872
Miscellaneous					38,719	126,481	165,200	28,997
Transfers					88,025	(88,025)	-0-	-
Total general revenues and transfers					2,458,517	153,966	2,612,483	323,138
Change in net assets					1,050,284	602,054	1,652,338	46,112
Restated net assets, beginning of the year					12,680,070	13,604,414	26,284,484	988,393
Net assets, end of the year					\$ 13,730,354	\$ 14,206,468	\$ 27,936,822	\$ 1,034,505

See accompanying notes to financial statements.

City of Portland
GOVERNMENTAL FUNDS BALANCE SHEET
June 30, 2007

	General	City Income Tax	Major Street
ASSETS			
Cash and cash equivalents	\$ 651,083	\$ 252,993	\$ 68,414
Receivables			
Taxes	1,133	118,904	-
Accounts	7,678	-	122
Special assessments	-	25,958	-
Due from other governmental units - State	-	-	32,655
Due from other funds	17,206	-	-
	<u>17,206</u>	<u>-</u>	<u>-</u>
TOTAL ASSETS	<u><u>\$ 677,100</u></u>	<u><u>\$ 397,855</u></u>	<u><u>\$ 101,191</u></u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 31,094	\$ 447	\$ 16,791
Accrued liabilities	61,769	1,728	4,097
Due to other funds	-	111,964	-
Deferred revenue	-	25,958	-
Advances from other funds	16,000	-	-
	<u>16,000</u>	<u>-</u>	<u>-</u>
TOTAL LIABILITIES	108,863	140,097	20,888
FUND BALANCES			
Reserved for			
Perpetual care	-	-	-
Debt service	-	-	-
Unreserved			
Designated for capital projects	300,000	-	-
Undesignated, reported in			
General Fund	268,237	-	-
Special Revenue Funds	-	257,758	80,303
Capital Project Funds	-	-	-
	<u>568,237</u>	<u>257,758</u>	<u>80,303</u>
TOTAL FUND BALANCES	<u>568,237</u>	<u>257,758</u>	<u>80,303</u>
TOTAL LIABILITIES AND FUND BALANCES	<u><u>\$ 677,100</u></u>	<u><u>\$ 397,855</u></u>	<u><u>\$ 101,191</u></u>

See accompanying notes to financial statements.

Boardwalk Project	Nonmajor Governmental Funds	Total Governmental Funds
\$ 101,080	\$ 329,036	\$ 1,402,606
-	-	120,037
-	5,931	13,731
-	13,716	39,674
-	166,995	199,650
-	112,710	129,916
<u>\$ 101,080</u>	<u>\$ 628,388</u>	<u>\$ 1,905,614</u>
\$ -	\$ 25,042	\$ 73,374
-	15,520	83,114
-	17,952	129,916
-	13,716	39,674
-	-	16,000
<u>-0-</u>	<u>72,230</u>	<u>342,078</u>
-	138,907	138,907
-	17,493	17,493
-	-	300,000
-	-	268,237
-	399,735	737,796
<u>101,080</u>	<u>23</u>	<u>101,103</u>
<u>101,080</u>	<u>556,158</u>	<u>1,563,536</u>
<u>\$ 101,080</u>	<u>\$ 628,388</u>	<u>\$ 1,905,614</u>

City of Portland

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS

June 30, 2007

Total fund balance - governmental funds **\$ 1,563,536**

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 18,336,703	
Accumulated depreciation is	<u>(5,148,591)</u>	
Capital assets, net		13,188,112

Internal Service Funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the Internal Service Funds are included in the governmental activities in the Government-wide Statement of Net Assets.

Net assets of governmental activities accounted for in Internal Service Funds	455,211	
Net capital assets of Internal Service Funds included in total capital assets above	<u>(276,626)</u>	
		178,585

Long-term receivables are not available to pay for current period expenditures and, therefore, are deferred in the funds. These consist of:

Deferred revenue		39,674
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Long-term liabilities are not due and payable in the current period and therefore are not reported in the Governmental Funds Balance Sheet. Long-term liabilities at year-end consist of:

Bonds and notes payable	1,155,000	
Accrued interest payable	25,271	
Compensated absences	<u>59,282</u>	
		<u>(1,239,553)</u>

Net assets of governmental activities		<u>\$ 13,730,354</u>
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See accompanying notes to financial statements.

City of Portland

Governmental Funds

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended June 30, 2007

	General	City Income Tax	Major Street
REVENUES			
Taxes	\$ 1,015,388	\$ 744,071	\$ -
Licenses and permits	3,325	-	-
Intergovernmental	450,462	-	211,476
Charges for services	465,893	-	-
Fines and forfeits	22,051	19,350	-
Interest and rents	77,488	5,432	2,179
Other	78,589	17,631	1,637
TOTAL REVENUES	2,113,196	786,484	215,292
EXPENDITURES			
Current			
General government	775,456	136,986	-
Public safety	931,551	-	-
Public works	50,959	-	976,939
Health and welfare	37,890	-	-
Community and economic development	42,489	-	-
Recreation and cultural	150,450	-	-
Capital outlay	1,207,085	-	-
Debt service	-	-	-
TOTAL EXPENDITURES	3,195,880	136,986	976,939
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(1,082,684)	649,498	(761,647)
OTHER FINANCING SOURCES (USES)			
Installment note proceeds	1,100,000	-	-
Transfers in	88,025	-	747,662
Transfers out	(87,500)	(908,162)	-
TOTAL OTHER FINANCING SOURCES (USES)	1,100,525	(908,162)	747,662
NET CHANGE IN FUND BALANCES	17,841	(258,664)	(13,985)
Fund balances, beginning of year	616,373	516,422	94,288
Prior period adjustment	(65,977)	-	-
Fund balances, end of year	\$ 568,237	\$ 257,758	\$ 80,303

See accompanying notes to financial statements.

Boardwalk Project	Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ 76,213	\$ 1,835,672
-	-	3,325
737,681	201,546	1,601,165
-	555,311	1,021,204
-	-	41,401
-	2,686	87,785
-	23,178	121,035
737,681	858,934	4,711,587
-	-	912,442
-	-	931,551
-	227,685	1,255,583
-	353,143	391,033
-	105,752	148,241
-	118,305	268,755
813,986	5,382	2,026,453
-	8,730	8,730
813,986	818,997	5,942,788
(76,305)	39,937	(1,231,201)
-	-	1,100,000
70,000	178,000	1,083,687
-	-	(995,662)
70,000	178,000	1,188,025
(6,305)	217,937	(43,176)
107,385	338,221	1,672,689
-	-	(65,977)
<u>\$ 101,080</u>	<u>\$ 556,158</u>	<u>\$ 1,563,536</u>

City of Portland

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2007

Net change in fund balances - total governmental funds **\$ (43,176)**

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 2,868,032	
Depreciation expense	<u>(618,242)</u>	
Excess of capital outlay over depreciation expense		2,249,790

Internal service funds are used by management to charge the costs of certain activities to individual funds.

(Decrease) in net assets of Internal Service Funds	(99,858)	
Bond principal retirements of Internal Service Funds included in the total below	(16,953)	
Decrease in accrued interest payable of Internal Service Funds included in the total below	(282)	
Capital outlay of Internal Service Funds included in the total above	(17,082)	
Depreciation expense of Internal Service Funds included in the total above	<u>90,675</u>	
		(43,500)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

(Decrease) in deferred revenue		(14,333)
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Repayment of long-term debt and borrowing of long-term debt is reported as expenditures and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net assets. In the current year, these amounts consist of:

Installment note proceeds	(1,100,000)	
Bonds, notes, and capital lease principal retirements	<u>30,753</u>	
		(1,069,247)

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

(Increase) in accrued interest payable	(24,592)	
(Increase) in accrued compensated absences	<u>(4,658)</u>	
		<u>(29,250)</u>

Change in net assets of governmental activities **\$ 1,050,284**

See accompanying notes to financial statements.

City of Portland
Proprietary Funds
STATEMENT OF NET ASSETS
June 30, 2007

	Business-type		
	Electric Light and Power System	Sewage Disposal System	Water System
ASSETS			
Current assets			
Cash and cash equivalents	\$ 1,251,293	\$ 174,976	\$ 1,462,157
Accounts receivable	473,683	74,909	97,204
Inventories	324,938	-	49,130
Total current assets	2,049,914	249,885	1,608,491
Noncurrent assets			
Cash and cash equivalents - restricted	412,573	164,382	24,006
Advances to other funds	-	-	-
Capital assets not being depreciated	317,414	11,003	3,500
Capital assets being depreciated, net	5,764,709	2,180,542	3,716,766
Total noncurrent assets	6,494,696	2,355,927	3,744,272
TOTAL ASSETS	8,544,610	2,605,812	5,352,763
LIABILITIES			
Current liabilities			
Accounts payable	254,928	33,335	19,390
Accrued liabilities	37,521	17,251	16,971
Accrued interest payable	8,625	905	12,863
Customer deposits	4,099	-	2,907
Current portion of long-term debt	100,000	15,000	55,000
Total current liabilities	405,173	66,491	107,131
Noncurrent liabilities			
Customer deposits payable from restricted assets	133,247	21,912	23,043
Bonds and notes payable	200,000	160,000	1,179,872
Total noncurrent liabilities	333,247	181,912	1,202,915
TOTAL LIABILITIES	738,420	248,403	1,310,046
NET ASSETS			
Invested in capital assets, net of related debt	5,782,123	2,016,545	2,485,394
Restricted for utilities	70,000	-	-
Restricted for debt service	188,308	42,275	-
Unrestricted	1,765,759	298,589	1,557,323
TOTAL NET ASSETS	\$ 7,806,190	\$ 2,357,409	\$ 4,042,717

See accompanying notes to financial statements.

Activities Nonmajor Enterprise Fund (Refuse)	Total	Governmental Activities Internal Service Fund
\$ 7,389	\$ 2,895,815	\$ 169,702
-	645,796	4,668
-	374,068	-
7,389	3,915,679	174,370
-	600,961	-
-	-0-	16,000
-	331,917	-
-	11,662,017	276,626
-0-	12,594,895	292,626
7,389	16,510,574	466,996
7,237	314,890	3,338
-	71,743	8,447
-	22,393	-
-	7,006	-
-	170,000	-
7,237	586,032	11,785
-	178,202	-
-	1,539,872	-
-0-	1,718,074	-0-
7,237	2,304,106	11,785
-	10,284,062	276,626
-	70,000	-
-	230,583	-
152	3,621,823	178,585
\$ 152	\$ 14,206,468	\$ 455,211

City of Portland

Proprietary Funds

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS

Year Ended June 30, 2007

	Business-type		
	Electric Light and Power System	Sewage Disposal System	Water System
OPERATING REVENUES			
Charges for services			
User charges	\$ 3,434,001	\$ 541,349	\$ 610,908
Tap fees	-	25,161	-
Other	121,880	2,116	2,192
TOTAL OPERATING REVENUES	3,555,881	568,626	613,100
OPERATING EXPENSES			
Salaries and wages	346,100	159,919	142,237
Fringe benefits	120,543	76,849	51,186
Contractual services	60,643	189,037	15,416
Supplies	284,786	9,407	35,279
Heat, light, and power	1,905,891	-	24,153
Communications	4,977	4,374	6,249
Insurance and bonds	11,485	4,557	2,044
Repairs and maintenance	22,345	1,865	13,152
Administrative services	58,476	45,792	47,784
Building and equipment rental	15,311	6,154	24,957
Other	32,490	2,585	6,209
Depreciation	216,616	64,137	84,536
TOTAL OPERATING EXPENSES	3,079,663	564,676	453,202
OPERATING INCOME (LOSS)	476,218	3,950	159,898
NONOPERATING REVENUES (EXPENSES)			
Interest earned	43,555	13,298	58,657
Interest expense and fees	(21,683)	(11,475)	(30,986)
TOTAL NONOPERATING REVENUES (EXPENSES)	21,872	1,823	27,671
INCOME (LOSS) BEFORE TRANSFERS	498,090	5,773	187,569
TRANSFERS			
Transfers out	(37,101)	(25,462)	(25,462)
CHANGE IN NET ASSETS	460,989	(19,689)	162,107
Net assets, beginning of year	7,345,201	2,466,034	3,969,546
Prior period adjustment	-	(88,936)	(88,936)
Net assets, end of year	\$ 7,806,190	\$ 2,357,409	\$ 4,042,717

See accompanying notes to financial statements.

Activities		Governmental Activities	
Nonmajor Enterprise Fund (Refuse)	Total	Internal Service Fund	
\$ 88,518	\$ 4,674,776	\$ 250,106	
-	25,161	-	
293	126,481	1,791	
88,811	4,826,418	251,897	
-	648,256	62,413	
-	248,578	30,502	
90,142	355,238	1,558	
22	329,494	55,762	
-	1,930,044	7,103	
-	15,600	1,672	
-	18,086	29,512	
-	37,362	49,803	
-	152,052	29,232	
-	46,422	-	
-	41,284	343	
-	365,289	90,675	
90,164	4,187,705	358,575	
(1,353)	638,713	(106,678)	
-	115,510	7,067	
-	(64,144)	(247)	
-0-	51,366	6,820	
(1,353)	690,079	(99,858)	
-	(88,025)	-	
(1,353)	602,054	(99,858)	
1,505	13,782,286	555,069	
-	(177,872)	-	
\$ 152	\$ 14,206,468	\$ 455,211	

City of Portland

Proprietary Funds

STATEMENT OF CASH FLOWS

Year Ended June 30, 2007

	Business-type		
	Electric Light and Power System	Sewage Disposal System	Water System
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from customers	\$ 3,503,826	\$ 586,313	\$ 642,514
Cash paid to suppliers	(2,143,923)	(268,505)	(311,004)
Cash paid for employee benefits	(470,078)	(235,475)	(194,807)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	889,825	82,333	136,703
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers out	(37,101)	(25,462)	(25,462)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Payments of borrowing	(135,000)	(15,000)	(55,000)
Payments on advances	-	-	-
Purchase of capital assets	(333,690)	(339,668)	(148,302)
NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(468,690)	(354,668)	(203,302)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest earned	43,555	13,298	58,657
Interest expense and fees	(21,683)	(11,475)	(30,986)
NET CASH PROVIDED BY INVESTING ACTIVITIES	21,872	1,823	27,671
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	405,906	(295,974)	(64,390)
Cash and cash equivalents, beginning of year	1,257,960	635,332	1,550,553
Cash and cash equivalents, end of year	<u>\$ 1,663,866</u>	<u>\$ 339,358</u>	<u>\$ 1,486,163</u>

<u>Activities</u> <u>Nonmajor</u> <u>Enterprise</u> <u>Fund (Refuse)</u>	<u>Total</u>	<u>Governmental</u> <u>Activities</u> <u>Internal</u> <u>Service</u> <u>Fund</u>
\$ 88,811 (90,213) -	\$ 4,821,464 (2,813,645) (900,360)	\$ 249,043 (174,939) (93,255)
(1,402)	1,107,459	(19,151)
-	(88,025)	-
-	(205,000)	(16,953)
-	-0-	16,000
-	(821,660)	(17,082)
-0-	(1,026,660)	(18,035)
-	115,510	7,067
-	(64,144)	(247)
-0-	51,366	6,820
(1,402)	44,140	(30,366)
8,791	3,452,636	200,068
<u>\$ 7,389</u>	<u>\$ 3,496,776</u>	<u>\$ 169,702</u>

City of Portland
Proprietary Funds
STATEMENT OF CASH FLOWS - CONTINUED
Year Ended June 30, 2007

	Business-type		
	Electric Light and Power System	Sewage Disposal System	Water System
Reconciliation of operating income (loss) to net cash provided (used) by operating activities			
Operating income (loss)	\$ 476,218	\$ 3,950	\$ 159,898
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities			
Depreciation	216,616	64,137	84,536
(Increase) decrease in accounts receivable	(58,224)	16,924	28,236
Decrease in inventories	50,658	-	-
Increase (decrease) in accounts payable	201,823	(4,734)	(135,761)
Increase (decrease) in accrued liabilities	(3,435)	1,293	(1,384)
Increase in customer deposits	6,169	763	1,178
 NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	 \$ 889,825	 \$ 82,333	 \$ 136,703

See accompanying notes to financial statements.

<u>Activities</u>		<u>Governmental</u>
<u>Nonmajor</u>		<u>Activities</u>
<u>Enterprise</u>		<u>Internal</u>
<u>Fund (Refuse)</u>	<u>Total</u>	<u>Service</u>
		<u>Fund</u>
\$ (1,353)	\$ 638,713	\$ (106,678)
-	365,289	90,675
-	(13,064)	(2,854)
-	50,658	-
(49)	61,279	46
-	(3,526)	(340)
-	8,110	-
<u>\$ (1,402)</u>	<u>\$ 1,107,459</u>	<u>\$ (19,151)</u>

City of Portland

Fiduciary Fund

STATEMENT OF NET ASSETS

June 30, 2007

	Current Tax Collection
ASSETS	
Cash and cash equivalents	<u>\$ 2,593</u>
LIABILITIES	
Due to other governmental units	\$ 228
Due to individuals and agencies	812
Undistributed property taxes	<u>1,553</u>
TOTAL LIABILITIES	<u>\$ 2,593</u>

See accompanying notes to financial statements.

City of Portland

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Portland is located in Ionia County, Michigan and has a population of approximately 4,000. The City of Portland operates with a City Manager/Council form of government and provides services to its residents in many areas including general government, law enforcement, highways and streets, human services, and utilities services.

The City has five (5) City Council members who are elected at large for overlapping two (2) or four (4) year terms. The Council elects two (2) of its members to serve as Mayor and Mayor Pro-Tem. The Council appoints the City Manager, City Clerk, Finance Director/Treasurer, and Assessor.

The financial statements of the City have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to city governments. The Governmental Accounting Standards Board is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The City's more significant accounting policies are described below.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement No. 14, *The Financial Reporting Entity* (as amended by GASB Statement No. 39); and *Statement on Michigan Governmental Accounting and Auditing No. 5*, these financial statements present the financial activities of the City of Portland (primary government) and its component unit. Blended component units, although legally separate entities, are, in substance, part of the City's operations and so data from these units are combined with data of the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the City.

2. Joint Venture

The City participates in the following activity which is considered to be a joint venture in relation to the City, due to the formation of an organization by contractual agreement between two (2) or more participants that maintain joint control, financial interest, and financial responsibility.

Portland Area Municipal Authority - The City is a member of the Portland Area Municipal Authority (PAMA), which is a joint venture between the City of Portland and the Townships of Portland and Danby. The City appoints two (2) of the five (5) members of the governing board. PAMA is charged with the responsibility of acquiring, financing, equipping, and improving an emergency services building for use by the participating municipalities.

The constituent municipalities are responsible for their share of the costs incurred by PAMA according to the following percentages:

City of Portland	40%
Portland Township	40
Danby Township	20

The financial activities of PAMA are accounted for and reported separately from the participating units. Separate audited financial statements for the year ended December 31, 2006, are available at PAMA's administrative offices. As of December 31, 2006, PAMA had a fund balance of \$1,935.

3. Discretely Presented Component Unit

The component unit is reported in a separate column to emphasize that, while legally separate, the City remains financially accountable for this entity or the nature and significance of the relationship between the entity and the City is such that exclusion of the entity would render the financial statements misleading or incomplete. The financial statements contain the following discretely presented component unit:

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

3. Discretely Presented Component Unit - continued

Downtown Development Authority - A majority of the members of the governing board of the Downtown Development Authority are appointed by the City Council. The City also has the ability to significantly influence operations of the Downtown Development Authority.

4. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the government-wide statements) present information for the primary government and its component unit as a whole. All non-fiduciary activities of the primary government are included (i.e., fiduciary fund activities are not included in the government-wide statements). For the most part, interfund activity has been eliminated in the preparation of these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities presents the direct functional expenses of the primary government and its component unit and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State revenue sharing payments and other general revenues and shows how governmental functions are either self-financing or supported by general revenues.

FUND FINANCIAL STATEMENTS

The fund financial statements present the City's individual major funds and aggregated nonmajor funds. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and the major individual enterprise funds are reported as separate columns in the fund financial statements.

The major funds of the City are:

- a. The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government except for those that are required to be accounted for in another fund.
- b. The City Income Tax Fund is used to account for the revenue from income tax collection. The City income tax was approved by voters for the purpose of funding street improvements.
- c. The Major Street Fund is used to account for financial resources that are used for repairs and maintenance of the City's streets.
- d. The Boardwalk Project Fund is used to account for the construction of the Boardwalk.
- e. The Electric Light and Power System Fund is used to account for the operations required to provide electric services to the general public, the costs (expenses, including depreciation) are financed or recovered primarily through user charges.
- f. The Sewage Disposal System Fund is used to account for the operations required to provide sewer services to the general public, the costs (expenses, including depreciation) are financed or recovered primarily through user charges.

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

4. Basis of Presentation - continued

- g. The Water System Fund is used to account for the operations required to provide water services to the general public, the costs (expenses, including depreciation) are financed or recovered primarily through user charges.

5. Measurement Focus

The government-wide and proprietary fund financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the government-wide statements are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

There is no measurement focus for Agency Funds since assets equal liabilities.

6. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

All governmental and similar trust funds are accounted for using the modified accrual basis of accounting. Under this method, revenues are recognized when they become susceptible to accrual (when they become both "measurable" and "available to finance expenditures of the current period"). The length of time used for "available" for purposes of revenue recognition in the governmental fund financial statements is 60 days. Revenues that are considered measurable but not available are recorded as a receivable and deferred revenue. Significant revenues susceptible to accrual are special assessments and certain intergovernmental revenues. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for interest on long-term debt which is recorded when due.

All proprietary and similar trust funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

Private-sector standards of accounting and financial reporting issued to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Enterprise Funds are charges to customers for sales and services. Operating expenses for enterprise funds include the costs of sales and services, administrative expenses, and other costs of running the activity. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. If/when both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

7. Budgets and Budgetary Accounting

The General and Special Revenue Fund budgets shown as required supplementary information were prepared on the same modified accrual basis used to reflect actual results. The City employs the following procedures in establishing the budgetary data reflected in the financial statements.

- a. On the council meeting date nearest to the third Monday in April, the City Manager submits to City Council the proposed operating budgets for the fiscal year commencing the following July 1. The operating budgets include proposed expenditures and resources to finance them.
- b. A Public Hearing is conducted to obtain taxpayers' comments.
- c. Prior to the second regular council meeting in May, the budget is legally enacted through passage of a resolution.
- d. The budget is legally adopted at the activity level for the General Fund and total expenditure level for the Special Revenue Fund; however, they are maintained at the account level for control purposes.
- e. The City does not employ encumbrance accounting as an extension of formal budgetary integration in the governmental funds. Appropriations unused at June 30 are not carried forward to the following fiscal year.
- f. Budgeted amounts are reported as originally adopted or amended by the City Council during the year. Individual amendments were appropriately approved by the City Council as required.

8. Cash and Cash Equivalents

Cash and cash equivalents consist of checking, savings, money market, certificates of deposit with a maturity from date of purchase of 90 days or less, and pooled investment fund accounts. The cash equivalents are recorded at cost, which approximates market value.

9. Due from Other Governmental Units

Due from other governmental units consists of amounts due from the State of Michigan for various payments and grants and accounts receivable for charges for services provided to local governmental units.

10. Receivables

Receivables consist of amounts due related to charges for services, interest receivable, and other amounts owed to the City at year-end.

11. Property Tax

The City of Portland bills and collects its own property taxes and also taxes for other governmental units. The City's property tax revenue recognition policy and related tax calendar disclosures are highlighted in the following paragraph:

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

11. Property Tax - continued

Property taxes are levied by the City of Portland on July 1 and December 1 and are payable without penalty through September 30 and February 14, respectively. The July 1 levy is composed of the City's millage, 2/3 of the County's millage assessments, and school taxes. The December 1 levy is composed of 1/3 of the County's millage and school taxes. All real property taxes not paid to the City by March 1 are turned over to the Ionia County Treasurer for collection. The Ionia County Treasurer purchases the receivables of all taxing districts on any delinquent real property taxes. Delinquent personal property taxes receivable are retained by the City for subsequent collection. Collections and remittances of all taxes are accounted for in the Current Tax Collections Agency Fund. City property tax revenues are recognized as revenues in the fiscal year levied.

The City is permitted by charter to levy taxes up to 15 mills (\$15 per \$1,000 of taxable valuation) for general governmental services other than the payment of Debt Service Fund expenditures. For the year ended June 30, 2007, the City levied 13.7164 mills per \$1,000 of taxable valuation for general governmental services, which includes 1.000 mills for local streets. The total taxable value for the 2006 levy for property within the City was \$88,077,450.

12. Income Tax Revenues

In accordance with GASB Statement No. 22, *Accounting for Taxpayer - Assessed Tax Revenues in Governmental Funds*, the City has recognized taxpayer-assessed taxes, net of estimated refunds, as revenue in the accounting period in which they become susceptible to accrual (i.e., measurable and available to finance expenditures of the fiscal period). The City has calculated this amount based on the income tax collections made within 60 days after year end that relate to the prior years. Estimated refunds of these amounts are considered to be immaterial.

13. Inventories

The cost of inventory items in governmental funds is recorded as an expenditure at the time of purchase. Inventories in the Enterprise Funds consist of Electric, Light and Power and Water System supplies which are stated at cost on a first-in/first-out basis.

14. Accrued Compensated Absences

City employees are granted vacation and sick leave in varying amounts. In the event of termination, an employee is paid for accumulated vacation days up to the equivalent of 10 days of vacation. Employees are not paid for accumulated sick leave.

For governmental funds, the cost of accumulated vacation along with the related payroll taxes expected to be paid in the next 60 days is recorded as a fund liability, and amounts expected to be paid after 60 days are recorded only in the government-wide financial statements. For proprietary funds, the cost is recorded as a fund liability when incurred.

15. Interfund Transactions

During the course of normal operations, the City has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as operating transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

The Internal Service Fund (Motor Pool) records charges for services provided to various City departments and funds as operating revenue. All City funds record these payments as operating expenditures/expenses.

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

16. Capital Assets

Capital assets include buildings and equipment and are recorded (net of accumulated depreciation, if applicable) in the government-wide financial statements under the governmental activities column. Capital assets are those with an initial individual cost of \$5,000 or more and an estimated useful life of more than one year. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the government-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Buildings and additions	30 - 40 years
Electric, Water and Sewer systems	25 - 50 years
Machinery and equipment	5 - 40 years
Infrastructure - streets and bridges	30 years
Land improvements	20 years
Downtown improvements	20 years

17. Deferred Revenue

Deferred revenue consists of amounts related to special assessments receivable in future periods. None of these amounts are deferred in the government-wide financial statements.

18. Long-term Liabilities

Long-term debt and other long-term obligations are recognized as a liability in the government-wide financial statements and proprietary fund types when incurred. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as long-term.

Long-term debt is recognized as a liability of a governmental fund when due or when resources have been accumulated in a Debt Service Fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund.

19. Comparative Data

Comparative data for the prior year has not been presented in the accompanying financial statements since their inclusion would make the statements unduly complex and difficult to read.

NOTE B: CASH AND CASH EQUIVALENTS

The City deposits consist of a common checking account and various savings, money market, checking, and pooled investment fund accounts maintained by individual funds and are reported as cash and cash equivalents in the financial statements.

In accordance with Michigan Compiled Laws, the City is authorized to invest in the following investment vehicles:

- a. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE B: CASH AND CASH EQUIVALENTS - CONTINUED

- b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of this State or the United States, but only if the bank, savings and loan association, savings bank or credit union is eligible to be a depository of surplus funds belonging to the State under Section 6 of 1855 PA 105, MCL 21.146.
- c. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
- d. The United States government or federal agency obligations repurchase agreements.
- e. Bankers' acceptances of United States banks.
- f. Mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow collateralization of government deposits, if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143 to secure deposits of State funds, securities issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association, or Government National Mortgage Association.

Deposits

As of June 30, 2007, the carrying amounts and bank balances for each type of bank account are as follows:

<u>ACCOUNT TYPE</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
PRIMARY GOVERNMENT		
Checking and savings	\$ 3,725,011	\$ 4,014,736
Certificates of deposit	<u>1,300,000</u>	<u>1,300,000</u>
Total Primary Government	5,025,011	5,364,736
FIDUCIARY FUNDS		
Checking	2,593	13,516
COMPONENT UNIT		
Checking	<u>173,288</u>	<u>171,690</u>
TOTAL REPORTING ENTITY	<u>\$ 5,200,892</u>	<u>\$ 5,549,942</u>

The primary government cash and cash equivalents caption on the basic financial statements included \$893 of imprest cash.

Deposits of the City are at federally insured banks located in the State of Michigan with all accounts maintained in the name of the City. As of June 30, 2007, the City accounts were insured by the FDIC for \$549,263 and the amount of \$5,000,679 was uninsured and uncollateralized.

City of Portland

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE B: CASH AND CASH EQUIVALENTS - CONTINUED

Investments

As of June 30, 2007, the City had the following investments:

<u>INVESTMENT TYPE</u>	<u>Carrying Amount</u>	<u>Market Value</u>	<u>Weighted Average Maturity</u>
PRIMARY GOVERNMENT			
Uncategorized Pooled Investment			
Government Op MM Fund	\$ 43,180	\$ 43,180	34 days

Credit risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). As of June 30, 2007, the City's investment in the uncategorized pooled investment was rated Aaa by Moody's.

Interest rate risk

The City will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by:

Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity, and investing operating funds primarily in shorter-term securities, money market mutual funds, or similar investment pools and limiting the average maturity of the portfolio.

Concentration of credit risk

The City will minimize credit risk, which is the risk of loss due to the failure of the security issuer or backer, by:

Limiting investments to the types of securities listed in the "Authorized Investments" section; pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisers with which the City will do business in accordance with the "Authorized Institutions" section; and diversifying the investment portfolio so that the impact of potential losses from any one type of security or from any one individual issuer will be minimized.

The cash and cash equivalents and investments referred to above have been reported in either the cash and cash equivalents or investments captions on the basic financial statements, based upon criteria disclosed in Note A. The following summarizes the categorization of these amounts as of June 30, 2007:

	<u>Primary Government</u>	<u>Component Unit</u>	<u>Fiduciary Funds</u>	<u>Reporting Entity</u>
Cash and cash equivalents	\$ 4,468,123	\$ 58,386	\$ 2,593	\$ 4,529,102
Cash and cash equivalents - restricted	600,961	114,902	-	715,863
	<u>\$ 5,069,084</u>	<u>\$ 173,288</u>	<u>\$ 2,593</u>	<u>\$ 5,244,965</u>

City of Portland

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE C: CASH AND CASH EQUIVALENTS - RESTRICTED

The following summarizes the restricted cash and cash equivalents as of June 30, 2007:

	<u>Customer Deposits</u>	<u>Debt Retirement</u>	<u>Other</u>	<u>Total</u>
Enterprise Funds	\$ 185,208	\$ 240,113	\$ 175,640	\$ 600,961
Component Unit Fund	-	114,902	-	114,902
	<u>\$ 185,208</u>	<u>\$ 355,015</u>	<u>\$ 175,640</u>	<u>\$ 715,863</u>

NOTE D: INTERFUND RECEIVABLES AND PAYABLES

The amount of interfund receivables and payables at June 30, 2007, are as follows:

Due to General Fund from:	
City Income Tax Fund	\$ 13,378
Nonmajor governmental funds	<u>3,828</u>
	<u>\$ 17,206</u>
Due to nonmajor governmental funds from:	
City Income Tax Fund	\$ 98,586
Nonmajor governmental funds	<u>14,124</u>
	<u>\$ 112,710</u>

Amounts appearing as interfund payables and receivables arise from two types of transactions. One type of transaction is where a fund will pay for a good or service that at least a portion of the benefit belongs to another fund. The second type of transaction is where one fund provides a good or service to another fund. Balances at the end of the year are for transfers that have not cleared as of the balance sheet date.

NOTE E: INTERFUND TRANSFERS

Permanent reallocation of resources between funds of the reporting entity is classified as interfund transfers. For the purpose of the statement of activities, all interfund transfers between individual governmental funds, business type funds, and the component unit have been eliminated.

Transfers to nonmajor governmental funds from:	
General Fund	\$ 17,500
City Income Tax Fund	<u>160,500</u>
	<u>\$ 178,000</u>
Transfers to Boardwalk Project Fund from:	
General Fund	<u>\$ 70,000</u>
Transfer to Major Streets Fund from:	
City Income Tax Fund	<u>\$ 747,662</u>

City of Portland

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE E: INTERFUND TRANSFERS - CONTINUED

Transfer to General Fund from:	
Electric Light and Power System Fund	\$ 37,101
Sewer Fund	25,462
Water Fund	<u>25,462</u>
	<u>\$ 88,025</u>

NOTE F: ADVANCES RECEIVABLE AND PAYABLE

The following schedule details primary government advances at June 30, 2007:

Advance to General Fund from:	
Internal Service Fund	<u>\$ 16,000</u>

The advance was used to finance operations.

NOTE G: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2007 was as follows:

Primary Government

	Balance July 1, 2006	Additions/ Reclassifications	Deletions/ Reclassifications	Balance June 30, 2007
Governmental activities				
Capital assets, not being depreciated				
Land	\$ 1,075,920	\$ 1,192,832	\$ -	\$ 2,268,752
Construction in Progress	<u>220,389</u>	<u>1,582,733</u>	<u>(1,048,698)</u>	<u>754,424</u>
	1,296,309	2,775,565	(1,048,698)	3,023,176
Capital assets, being depreciated				
Buildings and additions	399,721	-	-	399,721
Equipment and furniture	1,592,554	25,457	-	1,618,011
Infrastructure - streets and bridges	<u>12,180,087</u>	<u>1,115,708</u>	<u>-</u>	<u>13,295,795</u>
Subtotal	14,172,362	1,141,165	-0-	15,313,527
Less accumulated depreciation for:				
Buildings and additions	(84,722)	(13,420)	-	(98,142)
Equipment and furniture	(935,259)	(130,411)	-	(1,065,670)
Infrastructure - streets and bridges	<u>(3,510,368)</u>	<u>(474,411)</u>	<u>-</u>	<u>(3,984,779)</u>
Subtotal	(4,530,349)	(618,242)	-0-	(5,148,591)
Net capital assets being depreciated	<u>9,642,013</u>	<u>522,923</u>	<u>-0-</u>	<u>10,164,936</u>
Capital assets, net	<u>\$ 10,938,322</u>	<u>\$ 3,298,488</u>	<u>\$(1,048,698)</u>	<u>\$ 13,188,112</u>

City of Portland

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE G: CAPITAL ASSETS - CONTINUED

Depreciation expense was charged to the following governmental activities:

General government	\$ 35,304
Public safety	28,480
Public works	537,014
Health and welfare	15,822
Recreation and cultural	<u>1,622</u>

Total depreciation expense \$ 618,242

	Balance July 1, 2006	Additions/ Reclassifications	Deletions/ Reclassifications	Balance June 30, 2007
Business-type activities				
(Electric Light and Power System)				
Capital assets, not being depreciated				
Land	\$ 222,191	\$ -	\$ -	\$ 222,191
Construction in progress	<u>-</u>	<u>95,223</u>	<u>-</u>	<u>95,223</u>
	222,191	95,223	-0-	317,414
Capital assets, being depreciated				
Buildings	2,481,861	-	-	2,481,861
Transmission and disbursement	5,080,834	39,679	-	5,120,513
Equipment	<u>168,846</u>	<u>198,788</u>	<u>-</u>	<u>367,634</u>
Subtotal	7,731,541	238,467	-0-	7,970,008
Less accumulated depreciation for				
Buildings	(500,287)	(54,878)	-	(555,165)
Transmission and disbursement	(1,457,870)	(151,515)	-	(1,690,385)
Equipment	<u>(30,526)</u>	<u>(10,223)</u>	<u>-</u>	<u>(40,749)</u>
Subtotal	<u>(1,988,683)</u>	<u>(216,616)</u>	<u>-0-</u>	<u>(2,205,299)</u>
Net capital assets, being depreciated	<u>5,742,858</u>	<u>21,851</u>	<u>-0-</u>	<u>5,764,709</u>
Capital assets, net	<u>\$ 5,965,049</u>	<u>\$ 117,074</u>	<u>\$ -0-</u>	<u>\$ 6,082,123</u>
Business-type activities				
(Sewage Disposal System)				
Capital assets, not being depreciated				
Land	\$ 11,003	\$ -	\$ -	\$ 11,003
Construction in progress	<u>864,569</u>	<u>339,668</u>	<u>(1,204,237)</u>	<u>-</u>
Subtotal	875,572	339,668	(1,204,237)	11,003
Capital assets, being depreciated				
Buildings	605,399	-	-	605,399
Sewage Disposal System	1,332,933	1,204,237	-	2,537,170
Equipment	<u>43,453</u>	<u>-</u>	<u>-</u>	<u>43,453</u>
Subtotal	1,981,785	1,204,237	-0-	3,186,022

City of Portland

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE G: CAPITAL ASSETS - CONTINUED

	Balance July 1, 2006	Additions/ Reclassifications	Deletions/ Reclassifications	Balance June 30, 2007
Business-type activities				
(Sewage Disposal System) - continued				
Less accumulated depreciation for				
Buildings	\$(494,923)	\$(15,810)	\$ -	\$(510,733)
Sewage Disposal System	(436,338)	(46,586)	-	(482,924)
Equipment	(10,082)	(1,741)	-	(11,823)
Subtotal	(941,343)	(64,137)	-0-	(1,005,480)
Net capital assets, being depreciated	1,040,442	1,140,100	-0-	2,180,542
Capital assets, net	<u>\$ 1,916,014</u>	<u>\$ 1,479,768</u>	<u>\$(1,204,237)</u>	<u>\$ 2,191,545</u>
Business-type activities				
(Water System)				
Capital assets, not being depreciated				
Land	\$ 3,500	\$ -	\$ -	\$ 3,500
Construction in progress	671,522	148,302	(819,824)	-
Subtotal	675,022	148,302	(819,824)	3,500
Capital assets, being depreciated				
Water System	3,959,026	819,824	-	4,778,850
Equipment	41,272	-	-	41,272
Subtotal	4,000,298	819,824	-0-	4,820,122
Less accumulated depreciation for				
Water System	(997,751)	(82,835)	-	(1,080,586)
Equipment	(21,069)	(1,701)	-	(22,770)
Subtotal	(1,018,820)	(84,536)	-0-	(1,103,356)
Net capital assets, being depreciated	2,981,478	735,288	-0-	3,716,766
Capital assets, net	<u>\$ 3,656,500</u>	<u>\$ 883,590</u>	<u>\$(819,823)</u>	<u>\$ 3,720,266</u>
Component Unit (DDA)				
Capital assets, not being depreciated				
Construction in progress	\$ 29,816	\$ -	\$ -	\$ 29,816
Capital assets, being depreciated				
Downtown improvements	470,788	-	-	470,788
City Hall building	2,601,000	-	-	2,601,000
Subtotal	3,071,788	-0-	-0-	3,071,788

City of Portland

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE G: CAPITAL ASSETS - CONTINUED

	Balance July 1, 2006	Additions	Deletions	Balance June 30, 2007
Component Unit (DDA) - continued				
Less accumulated depreciation for				
Downtown improvements	\$(37,441)	\$(23,539)	\$ -	\$(60,980)
City Hall building	(390,150)	(130,050)	-	(520,200)
Subtotal	(427,591)	(153,589)	-0-	(581,180)
Net capital assets being depreciated	2,644,197	(153,589)	-0-	2,490,608
Capital assets, net	\$ 2,674,013	\$(153,589)	\$ -0-	\$ 2,520,424

NOTE H: LONG-TERM DEBT

The following is a summary of changes in long-term debt (including current portion) of the City for the year ended June 30, 2007.

	Balance July 1, 2006	Additions	Deletions	Balance June 30, 2007	Amounts Due Within One Year
PRIMARY GOVERNMENT					
Governmental activities					
Special Assessment Limited					
Tax Bonds Payable	\$ 60,000	\$ -	\$ 5,000	\$ 55,000	\$ 5,000
Capital Leases Payable	8,800	-	8,800	-0-	-
2007 Installment Purchase Agreement	-	1,100,000	-	1,100,000	-
Notes Payable	16,953	-	16,953	-0-	-
Accumulated Compensated Absences	54,624	106,095	101,437	59,282	11,856
	140,377	1,206,095	132,190	1,214,282	16,856
Business-type activities					
Electric Light and Power System					
1994 Revenue Bonds	400,000	-	100,000	300,000	100,000
2002 Note Payable	35,000	-	35,000	-0-	-
Sewage Disposal System					
1995 Revenue Bonds	190,000	-	15,000	175,000	15,000
Water System					
2004 Water System Bonds	1,289,872	-	55,000	1,234,872	55,000
	1,914,872	-0-	205,000	1,709,872	170,000
TOTAL PRIMARY GOVERNMENT	2,055,249	1,206,095	337,190	2,924,154	186,856
COMPONENT UNIT FUND					
Downtown Development Authority					
General Obligation Bonds	1,770,000	-	130,000	1,640,000	135,000
	\$ 3,825,249	\$ 1,206,095	\$ 467,190	\$ 4,564,154	\$ 321,856

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE H: LONG-TERM DEBT - CONTINUED

Significant details regarding outstanding long-term debt (including current portion) are presented below:

PRIMARY GOVERNMENT

Special Assessment Limited Tax Bonds Payable (payable from Debt Service Fund)

The City issued Special Assessment Limited Tax Bonds for purposes of defraying the cost of installing portions of the sanitary sewer system in the Market and Canal Street area. The principal and interest requirements on these bonds are to be paid out of special assessments to be made against the benefited properties. These bonds are also backed by the full faith and credit of the City of Portland.

The following summarizes the significant details regarding this bond issue.

\$120,000 Special Assessment Limited Tax Bonds Series 1995 dated May 1, 1995, due in annual installments ranging from \$5,000 to \$15,000 through December 1, 2014, with interest ranging from 5.70 to 6.25 percent, payable semi-annually. \$ 55,000

Installment Purchase Agreement

\$1,100,000 Installment Purchase Agreement dated January 15, 2007, due in semi-annual installments ranging from \$51,472 to \$324,870 through January 15, 2017, with interest of 4.9 percent, payable semi-annually. \$ 1,100,000

Electric Light and Power System Revenue Bonds

The City issued Electric Revenue Bonds for purposes of financing improvements and acquisition and installation of equipment related to the Electric Light and Power System. The principal and interest requirements on the bonds are to be paid solely from the net revenues of the utility system.

The following summarizes the significant details regarding this bond issues

\$600,000 Electric Revenue Bonds Series 1994 dated December 1, 1994, due in annual installments of \$100,000 through August 1, 2009, with interest ranging from 6.80 to 7.00 percent, payable semi-annually. \$ 300,000

Sewage Disposal System Revenue Bonds

The City issued Wastewater Revenue Bonds for purposes of installing portions of the sanitary sewer system in the Market and Canal Street area. The principal and interest requirements on the bonds are to be paid solely from the net revenues of the sewage disposal system.

The following summarizes the significant details regarding this bond issue:

\$300,000 Wastewater Revenue Bonds Series 1995 dated May 1, 1995, due in annual installments ranging from \$15,000 to \$30,000 through December 1, 2014, with interest ranging from 5.90 to 6.35 percent, payable semi-annually. \$ 175,000

Water System Bonds

\$1,344,872 Water System Bonds dated September 25, 2003, due in annual installments ranging from \$55,000 to \$85,000 through October 1, 2024, with interest of 2.50 percent, payable semi-annually. \$ 1,234,872

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE H: LONG-TERM DEBT - CONTINUED**COMPONENT UNIT - DISCRETELY PRESENTED****General Obligation Bonds**

The City of Portland Downtown Development Authority (a component unit) issued Limited Tax General Obligation Downtown Development Bonds for purposes of financing construction and improvements outlined in the Downtown Development and Financing Plan along with the construction of a new City Hall. The principal and interest requirements on these bonds are to be paid from the portion of property tax levies related to the Downtown Development Authority districts. These bonds are also backed by the full faith and credit of the City of Portland.

The following summarizes the significant details regarding these bond issues:

\$275,000 Limited Tax General Obligation Downtown Development Bond dated October 1, 1994, due in annual installments of \$30,000 through June 1, 2008, with interest ranging from 6.30 to 6.40 percent, payable semi-annually.	\$ 30,000
\$995,000 Limited Tax General Obligation Downtown Development Bond dated June 1, 2001, due in annual installments ranging from \$50,000 to \$125,000 through October 1, 2016, with interest ranging from 4.20 to 5.00 percent, payable semi-annually.	825,000
\$1,005,000 Limited Tax General Obligation Downtown Development Bonds dated August 22, 2001, due in annual installments ranging from \$50,000 to \$100,000 through October 1, 2016, with interest of 4.75 percent, payable semi-annually.	<u>785,000</u>
	<u>\$ 1,640,000</u>

Accrued Compensated Absences

Individual employees have vested rights upon termination of employment to receive payments for unused vacation. The dollar amounts of these vested rights including related payroll taxes, which have been accrued on the government-wide financial statements. The total liability amounted to approximately \$103,606 at June 30, 2007. Of this amount, \$59,282 and \$44,325 are shown as accrued liabilities within the government-wide financial statements' governmental and business-type activities, respectively, in accordance with criteria disclosed in Note A.

The annual requirements to pay the debt principal and interest outstanding for the Bonds and Notes are as follows:

Primary Government

Year Ending June 30,	<u>Revenue Bonds</u>		<u>Water System Bonds</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 115,000	\$ 27,720	\$ 55,000	\$ 30,184
2009	120,000	19,826	55,000	28,809
2010	120,000	11,668	60,000	27,372
2011	20,000	6,938	60,000	25,872
2012	20,000	5,693	60,000	24,372
2013-2017	80,000	7,920	330,000	98,109
2018-2022	-	-	375,000	47,791
2023-2026	-	-	239,872	8,867
	<u>\$ 475,000</u>	<u>\$ 79,765</u>	<u>\$ 1,234,872</u>	<u>\$ 291,376</u>

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE H: LONG-TERM DEBT - CONTINUED**Primary Government - continued**

Year Ending June 30,	Installment Purchase Agreement		Special Assessment Limited Tax Bonds	
	Principal	Interest	Principal	Interest
2008	\$ -	\$ 54,649	\$ 5,000	\$ 3,198
2009	-	54,798	5,000	2,910
2010	-	54,649	5,000	2,618
2011	103,783	53,360	5,000	2,320
2012	109,003	48,139	5,000	2,018
2013-2017	<u>887,214</u>	<u>152,936</u>	<u>30,000</u>	<u>3,428</u>
	<u>\$ 1,100,000</u>	<u>\$ 418,531</u>	<u>\$ 55,000</u>	<u>\$ 16,492</u>

Component Unit

Year Ending June 30,	General Obligation Downtown Development Bonds	
	Principal	Interest
2008	\$ 135,000	\$ 75,752
2009	110,000	68,976
2010	145,000	63,163
2011	150,000	56,382
2012	150,000	49,407
2013-2017	<u>950,000</u>	<u>125,227</u>
	<u>\$ 1,640,000</u>	<u>\$ 438,907</u>

NOTE I: RETIREMENT PLAN**Plan Description**

The City participates in the Michigan Municipal Employees Retirement System, an agent multiple-employer defined benefit pension plan that covers all eligible full-time employees of the City. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing, Michigan 48917.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by the City Council and by negotiation with the City's collective bargaining units. The plan requires no contribution from the employees.

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE I: RETIREMENT PLAN - CONTINUED**Annual Pension Cost**

For year ended June 30, 2007, the City's annual pension cost of \$271,691 for the plan was equal to the City's required and actual contribution. The estimated annual required contribution was determined as part of an actuarial valuation at December 31, 2004, using the entry actual age cost method. Actual contributions to the retirement system are based on actual reported monthly payroll. Significant actuarial assumptions used include (a) an 8.00 percent investment rate of return (b) projected salary increases of 4.5 percent per year compounded annually, attributable to inflation (c) additional salary increases ranging from 0% to 8.4% per year depending on age, seniority and merit, and (d) assumption benefits will not increase after retirement.

The actuarial value of assets was determined using techniques that smooth the effects of short term volatility over a four (4) year period. The unfunded actuarial liability is being amortized as a level percentage of payroll over a period of thirty (30) years.

Three (3) year trend information

	Year Ended December 31,		
	<u>2004</u>	<u>2005</u>	<u>2006</u>
Actuarial value of assets	\$ 6,105,726	\$ 6,315,911	\$ 6,642,678
Actuarial accrued liability (AAL) (entry age)	8,159,192	8,555,564	8,919,615
Unfunded AAL	2,053,466	2,239,653	2,276,937
Funded ratio	75 %	74 %	74 %
Covered payroll	1,523,592	1,643,263	1,704,351
UAAL as a percentage of covered payroll	135 %	136 %	134 %

	Year Ended June 30,		
	<u>2005</u>	<u>2006</u>	<u>2007</u>
Annual pension cost	\$ 248,762	\$ 258,171	\$ 271,691
Percentage of APC contributed	100 %	100 %	100 %
Net pension obligation	-	-	-

This trend information was obtained from the most recently issued actuarial reports.

NOTE J: DEFERRED COMPENSATION PLAN

The City of Portland offers its employees a deferred compensation plan sponsored by the ICMA Retirement Corporation, which is a compensation plan created in accordance with IRC Section #457. The plan, available to all City employees, permits them to defer a portion of their current salary until future years. The deferred compensation is not available to the employees until termination, retirement, death, or unforeseeable emergency. The City's deferred compensation program is administered by the ICMA Retirement Corporation.

Legislative change has been made to 457 plans which mandates that by no later than January 1, 1999, all existing 457 plan assets must be held in a custodial account, trust, or annuity contract for the benefit of participants and their beneficiaries.

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE J: DEFERRED COMPENSATION PLAN - CONTINUED

Once a trust, custodial account, or annuity contract exists, assets are owned or held by the trust, custodian, or insurer for the exclusive benefit of participants and beneficiaries, and are not subject to the claims of public employers creditors nor can they be used by the public employer for any purpose other than the payment of benefits to these individuals participating in the plan or their designated beneficiaries. The ICMA Retirement Corporation elected to implement compliance with the new requirement effective January 1, 1998. The plan assets previously maintained in an Agency Fund are no longer reported by the City because the new legislation has eliminated the requirements that Section 457 plan assets legally remain the assets of the sponsoring government.

NOTE K: CODE ENFORCEMENT FINANCIAL INFORMATION

The City has elected to report the financial activities of the code enforcement department in the General Fund. The following is the required information as it relates to this department for the year ended June 30, 2007:

REVENUES	
Licenses and permits	
Permits	\$ 2,942
EXPENDITURES	
Salaries and wages	67,772
Fringe benefits	20,327
Contractual services	8,576
Supplies	1,217
Vehicle rental	331
Other	<u>1,775</u>
TOTAL EXPENDITURES	<u>99,998</u>
EXCESS OF REVENUES	
(UNDER) EXPENDITURES	<u>\$(97,056)</u>

NOTE L: RISK MANAGEMENT

The City participates in a pool, the Michigan Municipal Workers' Compensation Fund, with other municipalities for workers' compensation losses. The pool is organized under Public Act 317 of 1969, as amended. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The City has not been informed of any special assessments being required.

The City also participates in a State pool, the Michigan Municipal League, with other municipalities for property, liability, bonding, and casualty losses. The pool is organized under Public Act 138 of 1982, as amended. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The City has not been informed of any special assessments being required.

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE M: FUND EQUITY RESERVES AND DESIGNATIONS

Reserved fund balance and net assets are used to earmark a portion of fund equity to indicate that it is not appropriate for expenditures or has been legally segregated for a specific future use. Designated fund balance indicates that portion of the fund balance which the City has set aside for specific purposes.

The following are the various fund balance and net asset reserves as of June 30, 2007:

Fund Balances

Primary Government	
Nonmajor governmental funds	
Reserved for debt service	\$ 17,493
Reserved for perpetual care	<u>138,907</u>
Total primary government	<u>\$ 156,400</u>
Component Unit Fund	
Downtown Development Authority	
Reserved for debt service	<u>\$ 114,902</u>

The amount of \$114,902 represents the reserved amount of fund balance that the Authority has set aside for debt service in accordance with the requirements of bond resolutions.

The following is a fund balance designation as of June 30, 2007:

General Fund	
Designated for capital projects	<u>\$ 300,000</u>

NOTE N: RESTRICTED NET ASSETS

Restrictions of net assets shown in the government-wide financial statements indicate that restrictions imposed by the funding source or some other outside source which precludes their use for unrestricted purposes. The following are the various net asset restrictions as of June 30, 2007:

PRIMARY GOVERNMENT	
Capital improvement	
MDEQ Wellhead Protection Grant	<u>\$ 23</u>
Other Purposes	
City Income Tax	\$ 257,758
Major Street	80,303
Local Street	183,325
Cemetery Perpetual Care	<u>138,907</u>
	<u>\$ 660,293</u>
Business-type Activities	
Restricted for utilities	
Electric Light and Power	<u>\$ 70,000</u>

City of Portland

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE N: RESTRICTED NET ASSETS - CONTINUED

PRIMARY GOVERNMENT - CONTINUED

Restricted for debt service	
Electric Light and Power	\$ 188,308
Sewer System	<u>42,275</u>
	<u>\$ 230,583</u>

Section 12.9 of the City Charter created an electric utility reserve fund for the purpose of accumulating and holding such money which, in addition to insurance carried by the City, may be deemed by the Board of Light and Power to be prudently necessary for the protection, improvement, replacement, and extension of the City electric public utility plants and facilities.

Monies expended from the utility reserve fund must be replaced from the revenues of the City electric utility, and the amount in the fund must total the sum required by the charter (i.e., 10% of the undepreciated original cost of the electric utility of the City) before any electric utility revenues can be appropriated for other capital expenditures of the City.

COMPONENT UNIT

Downtown Development Authority	
Restricted for debt service	<u>\$ 95,695</u>

NOTE O: PRIOR PERIOD ADJUSTMENTS

The following prior period adjustments were made during the year, which were the result of corrections of accounting errors. These adjustments were reported as changes to beginning fund balance or net assets, respectively. The effect on operations and other affected balances for the current and prior year are as follows:

	June 30,		
	<u>2007</u>	<u>2006</u>	<u>Description</u>
General Fund			
Accounts receivable	\$ -	\$(65,977)	To correct overstated
Revenues over (under) expenditures	-	(65,977)	accounts receivable
Fund balance - beginning	(65,977)	-	
Sewage Disposal System			
Accounts receivable	-	(88,936)	To correct overstated
Change in net assets	-	(88,936)	accounts receivable
Net assets - beginning	(88,936)	-	
Water System			
Accounts receivable	-	(88,936)	To correct overstated
Change in net assets	-	(88,936)	accounts receivable
Net assets - beginning	(88,936)	-	

City of Portland

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE P: RESTATEMENT OF NET ASSETS

The City has retroactively adjusted accounts receivable balances of governmental activities. Net assets have been restated as follows:

Governmental activities net assets as of June 30, 2006	\$12,746,047
Overstated receivables	<u>(65,977)</u>
Restated governmental activities net assets as of June 30, 2006	<u>\$12,680,070</u>

NOTE Q: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Michigan Public Act 621 of 1978, Sections 18 and 19, as amended, provides that a local governmental unit not incur expenditures in excess of the amounts appropriated.

In the budgetary comparison schedules, the City's budgeted expenditures in the General and major Special Revenue Funds have been shown at the functional classification level. The approved budgets of the City have been adopted at the activity level for the General Fund and the total expenditure level for the Special Revenue Funds.

During the year ended June 30, 2007, the City incurred expenditures in the General Fund in excess of the amounts appropriated as follows:

	<u>Amounts Appropriated</u>	<u>Amounts Expended</u>	<u>Variance</u>
General Fund			
Community and economic development			
Economic development	\$ 42,000	\$ 42,489	\$ 489

NOTE R: POST-EMPLOYMENT HEALTH CARE BENEFITS

In addition to providing pension benefits, the City provides certain health care benefits for retired employees. Substantially all of the City's employees may become eligible for these benefits if they reach the normal retirement age of 55 with at least 25 years of credited service while working for the City. These benefits are provided until age 65, at which time the individuals are eligible for Medicare coverage.

The cost of retiree health care benefits is recognized as an expenditure as insurance premiums are paid. For the year ended June 30, 2007, those costs totaled \$22,234.

UPCOMING REPORTING CHANGE

The Governmental Accounting Standards Board has released Statement Number 45, *Accounting and Reporting By Employers for Postemployment Benefits Other Than Pensions*. The pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" post-employment benefits (other than pensions). The rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The pronouncement is effective for the year ending June 30, 2009.

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE S: RELIANCE ON FUNDING SOURCES

Downtown Development Authority (Component Unit)

As a result of constitutional and statutory amendments related to school financing, the City of Portland Downtown Development Authority (Component Unit) is not able to capture as much tax increment revenue related to school property taxes as in the past. Also, the amount of school property taxes available to be captured has dramatically decreased.

The amount that can now be captured depends on whether the Authority has met certain criteria. The City of Portland Downtown Development Authority appears to have met the required criteria which will allow the Authority to capture school property taxes in an amount up to either the annual debt service requirements for both DDA general obligation debt issues or the non-school property taxes captured, whichever is less.

REQUIRED SUPPLEMENTARY INFORMATION

City of Portland
General Fund
BUDGETARY COMPARISON SCHEDULE
Year Ended June 30, 2007

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Taxes				
Property taxes	\$ 959,165	\$ 959,165	\$ 969,889	\$ 10,724
Penalties and interest	4,500	4,500	5,648	1,148
Tax collection	38,000	38,000	39,851	1,851
Total taxes	1,001,665	1,001,665	1,015,388	13,723
Licenses and permits				
Cable television license	18,000	18,000	-	(18,000)
City licenses and permits	3,050	3,050	3,325	275
Total licenses and permits	21,050	21,050	3,325	(17,725)
Intergovernmental				
State				
Sales tax	453,371	453,371	446,198	(7,173)
Act 302 training funds	1,500	1,500	1,386	(114)
State liquor license	2,800	2,800	2,878	78
Total intergovernmental	457,671	457,671	450,462	(7,209)
Charges for services				
Fire protection - townships	126,381	126,381	117,359	(9,022)
Cemetery fees and lot sales	30,950	30,950	25,373	(5,577)
Administrative charges	303,921	303,921	305,904	1,983
Other fees	6,725	6,725	17,257	10,532
Total charges for services	467,977	467,977	465,893	(2,084)
Fines and forfeits				
Parking	1,500	1,500	1,833	333
District court	12,500	12,500	18,072	5,572
Other	3,400	3,400	2,146	(1,254)
Total fines and forfeits	17,400	17,400	22,051	4,651
Interest and rents	63,450	63,450	77,488	14,038
Other				
Donations	3,600	3,600	4,250	650
Reimbursements	47,025	47,025	74,339	27,314
Total other	50,625	50,625	78,589	27,964
TOTAL REVENUES	2,079,838	2,079,838	2,113,196	33,358

City of Portland

General Fund

BUDGETARY COMPARISON SCHEDULE - CONTINUED

Year Ended June 30, 2007

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
EXPENDITURES				
Current				
General government				
Council, boards, and commissions	\$ 9,800	\$ 9,800	\$ 7,459	\$ 2,341
Community promotions	126,960	86,960	84,854	2,106
City manager	129,028	128,528	125,259	3,269
Assessing services	55,560	55,560	47,760	7,800
Elections	6,025	8,025	7,925	100
City hall and grounds	73,275	73,275	57,739	15,536
General administrative	387,829	387,829	341,050	46,779
Cemetery operations	147,685	140,185	103,410	36,775
Total general government	936,162	890,162	775,456	114,706
Public safety				
Police department	720,000	720,000	633,242	86,758
Fire department	218,981	218,981	198,311	20,670
Code enforcement	122,050	119,050	99,998	19,052
Total public safety	1,061,031	1,058,031	931,551	126,480
Public works				
Street lighting	44,250	65,000	50,959	14,041
Health and welfare				
Ambulance service	37,890	37,890	37,890	-0-
Community and economic development				
Economic development	10,000	42,000	42,489	(489)
Recreation and cultural				
Parks department	201,860	208,360	150,450	57,910
Capital outlay	-	1,215,000	1,207,085	7,915
TOTAL EXPENDITURES	2,291,193	3,516,443	3,195,880	320,563
EXCESS OF REVENUES (UNDER) EXPENDITURES	(211,355)	(1,436,605)	(1,082,684)	353,921

City of Portland

General Fund

BUDGETARY COMPARISON SCHEDULE - CONTINUED

Year Ended June 30, 2007

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
OTHER FINANCING SOURCES (USES)				
Installment note proceeds	\$ -	\$ 1,100,000	\$ 1,100,000	\$ -0-
Transfers in				
Electric Light and Power System Fund	37,101	37,101	37,101	-0-
Sewage Disposal System Fund	25,462	25,462	25,462	-0-
Water System Fund	25,462	25,462	25,462	-0-
Transfers out				
Boardwalk Project Fund	-	(70,000)	(70,000)	-0-
Recreation Fund	(20,000)	(17,500)	(17,500)	-0-
 TOTAL OTHER FINANCING SOURCES (USES)	 68,025	 1,100,525	 1,100,525	 -0-
 NET CHANGE IN FUND BALANCE	 (143,330)	 (336,080)	 17,841	 353,921
 Fund balance, beginning of year	 616,373	 616,373	 616,373	 -0-
 Prior period adjustment	 -	 -	 (65,977)	 (65,977)
 Fund balance, end of year	 <u>\$ 473,043</u>	 <u>\$ 280,293</u>	 <u>\$ 568,237</u>	 <u>\$ 287,944</u>

City of Portland

City Income Tax Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2007

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Taxes	\$ 712,000	\$ 712,000	\$ 744,071	\$ 32,071
Intergovernmental	238,500	238,500	-	(238,500)
Fines and forfeits	15,000	-	19,350	19,350
Interest	6,875	15,000	5,432	(9,568)
Other				
Special assessments	8,010	9,885	15,743	5,858
Other	-	5,000	1,888	(3,112)
TOTAL REVENUES	980,385	980,385	786,484	(193,901)
EXPENDITURES				
General government	159,332	159,332	136,986	22,346
EXCESS OF REVENUES OVER EXPENDITURES	821,053	821,053	649,498	(216,247)
OTHER FINANCING SOURCES (USES)				
Transfers in	773,850	773,850	-	(773,850)
Transfers out	(1,324,890)	(1,353,665)	(908,162)	445,503
TOTAL OTHER FINANCING SOURCES (USES)	(551,040)	(579,815)	(908,162)	(328,347)
NET CHANGE IN FUND BALANCE	270,013	241,238	(258,664)	(544,594)
Fund balance, beginning of year	516,422	516,422	516,422	-0-
Fund balance, end of year	<u>\$ 786,435</u>	<u>\$ 757,660</u>	<u>\$ 257,758</u>	<u>\$ (544,594)</u>

City of Portland

Major Street Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2007

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Intergovernmental - State				
Gas and weight tax	\$ 180,000	\$ 180,000	\$ 206,639	\$ 26,639
METRO Act	4,200	4,200	4,837	637
Interest	6,000	6,000	2,179	(3,821)
Other	10,000	10,000	1,637	(8,363)
TOTAL REVENUES	200,200	200,200	215,292	15,092
EXPENDITURES				
Public works				
Administrative	55,005	55,005	52,445	2,560
Construction	784,165	784,165	764,527	19,638
Maintenance	207,900	207,900	159,967	47,933
TOTAL EXPENDITURES	1,047,070	1,047,070	976,939	70,131
EXCESS OF REVENUES (UNDER) EXPENDITURES	(846,870)	(846,870)	(761,647)	85,223
OTHER FINANCING SOURCES				
Transfers in	784,165	784,165	747,662	(36,503)
NET CHANGE IN FUND BALANCE	(62,705)	(62,705)	(13,985)	48,720
Fund balance, beginning of year	94,288	94,288	94,288	-0-
Fund balance, end of year	<u>\$ 31,583</u>	<u>\$ 31,583</u>	<u>\$ 80,303</u>	<u>\$ 48,720</u>

OTHER SUPPLEMENTARY INFORMATION

City of Portland
Nonmajor Governmental Funds
COMBINING BALANCE SHEET
June 30, 2007

	Special Revenue		
	Local Street	Recreation	Portland Area Ambulance
ASSETS			
Cash and cash equivalents	\$ 92,141	\$ 42,803	\$ 46,981
Accounts receivable	559	-	5,372
Special assessments receivable	-	-	-
Due from other governmental units	11,696	-	155,299
Due from other funds	89,273	-	-
TOTAL ASSETS	\$ 193,669	\$ 42,803	\$ 207,652
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 3,286	\$ 5,333	\$ 16,423
Accrued liabilities	3,230	2,762	9,528
Due to other funds	3,828	-	-
Deferred revenue	-	-	-
TOTAL LIABILITIES	10,344	8,095	25,951
FUND BALANCES			
Reserved for			
Perpetual care	-	-	-
Debt service	-	-	-
Unreserved			
Undesignated, reported in:			
Special Revenue Funds	183,325	34,708	181,701
Capital Project Funds	-	-	-
TOTAL FUND BALANCES	183,325	34,708	181,701
TOTAL LIABILITIES AND FUND BALANCES	\$ 193,669	\$ 42,803	\$ 207,652

<u>Funds</u>	<u>Debt Service Fund</u>	<u>Capital Project Fund</u>	<u>Permanent Fund</u>	<u>Total Nonmajor Governmental Funds</u>
<u>Downtown Rehabilitation</u>	<u>Special Assessments</u>	<u>MDEQ Wellhead Protection Grant</u>	<u>Cemetery Perpetual Care</u>	
\$ 1	\$ 8,180	\$ 23	\$ 138,907	\$ 329,036
-	-	-	-	5,931
-	13,716	-	-	13,716
-	-	-	-	166,995
-	23,437	-	-	112,710
<u>\$ 1</u>	<u>\$ 45,333</u>	<u>\$ 23</u>	<u>\$ 138,907</u>	<u>\$ 628,388</u>
\$ -	\$ -	\$ -	\$ -	\$ 25,042
-	-	-	-	15,520
-	14,124	-	-	17,952
-	13,716	-	-	13,716
-0-	27,840	-0-	-0-	72,230
-	-	-	138,907	138,907
-	17,493	-	-	17,493
1	-	-	-	399,735
-	-	23	-	23
<u>1</u>	<u>17,493</u>	<u>23</u>	<u>138,907</u>	<u>556,158</u>
<u>\$ 1</u>	<u>\$ 45,333</u>	<u>\$ 23</u>	<u>\$ 138,907</u>	<u>\$ 628,388</u>

City of Portland

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES

Year Ended June 30, 2007

	Special Revenue		
	Local Street	Recreation	Portland Area Ambulance
REVENUES			
Taxes	\$ 76,213	\$ -	\$ -
Intergovernmental	78,793	17,000	-
Charges for services	-	83,208	472,103
Interest and rents	464	23	-
Other	3,137	5,459	7,198
TOTAL REVENUES	158,607	105,690	479,301
EXPENDITURES			
Current			
Public works	227,685	-	-
Health and welfare	-	-	353,143
Community and economic development	-	-	-
Recreation and cultural	-	118,305	-
Capital outlay	-	-	-
Debt service	-	-	-
TOTAL EXPENDITURES	227,685	118,305	353,143
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(69,078)	(12,615)	126,158
OTHER FINANCING SOURCES			
Transfers in	160,500	17,500	-
NET CHANGE IN FUND BALANCES	91,422	4,885	126,158
Fund balances, beginning of year	91,903	29,823	55,543
Fund balances, end of year	\$ 183,325	\$ 34,708	\$ 181,701

Funds	Debt Service Fund	Capital Project Fund	Permanent Fund	Total Nonmajor Governmental Funds
Downtown Rehabilitation	Special Assessments	MDEQ Wellhead Protection Grant	Cemetery Perpetual Care	
\$ -	\$ -	\$ -	\$ -	\$ 76,213
105,753	-	-	-	201,546
-	-	-	-	555,311
-	2,199	-	-	2,686
-	2,835	-	4,549	23,178
105,753	5,034	-0-	4,549	858,934
-	-	-	-	227,685
-	-	-	-	353,143
105,752	-	-	-	105,752
-	-	-	-	118,305
-	-	5,382	-	5,382
-	8,730	-	-	8,730
105,752	8,730	5,382	-0-	818,997
1	(3,696)	(5,382)	4,549	39,937
-	-	-	-	178,000
1	(3,696)	(5,382)	4,549	217,937
-	21,189	5,405	134,358	338,221
\$ 1	\$ 17,493	\$ 23	\$ 138,907	\$ 556,158

City of Portland

Component Unit Fund

BALANCE SHEET - DOWNTOWN DEVELOPMENT AUTHORITY

June 30, 2007

ASSETS

Cash	\$ 58,386
Cash - restricted	<u>114,902</u>

TOTAL ASSETS	<u>\$ 173,288</u>
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LIABILITIES AND FUND BALANCE

LIABILITIES	\$ -
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FUND BALANCE

Reserved for debt service	114,902
Unreserved - undesignated	<u>58,386</u>

TOTAL FUND BALANCE	<u>173,288</u>
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TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 173,288</u>
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City of Portland

Component Unit Fund

RECONCILIATION OF THE BALANCE SHEET TO
THE STATEMENT OF NET ASSETS - DOWNTOWN DEVELOPMENT AUTHORITY

June 30, 2007

Total fund balance - governmental fund \$ 173,288

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 3,101,604	
Accumulated depreciation is	<u>(581,180)</u>	

Capital assets, net		2,520,424
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Long-term liabilities are not due and payable in the current period
and therefore are not reported as liabilities in the funds.

Long-term liabilities at year-end consist of:

Accrued interest payable	19,207	
General obligation bonds	<u>1,640,000</u>	
		<u>(1,659,207)</u>

Net assets of governmental activities		<u><u>\$ 1,034,505</u></u>
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City of Portland

Component Unit Fund

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
DOWNTOWN DEVELOPMENT AUTHORITY

Year Ended June 30, 2007

REVENUES

Taxes	\$ 290,269
Intergovernmental	37,000
Interest	3,872
Other	<u>28,997</u>

TOTAL REVENUES	360,138
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EXPENDITURES

Current	
Community and economic development	14,867
Capital outlay	
Contracted services	56,777
Decorations and banners	7,122
Debt service	
Principal	130,000
Interest and fiscal charges	<u>82,935</u>

TOTAL EXPENDITURES	<u>291,701</u>
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CHANGE IN FUND BALANCE	68,437
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Fund balance, beginning of year	<u>104,851</u>
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Fund balance, end of year	<u><u>\$ 173,288</u></u>
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City of Portland

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE OF THE GOVERNMENTAL FUND
TO THE STATEMENT OF ACTIVITIES - DOWNTOWN DEVELOPMENT AUTHORITY

Year Ended June 30, 2007

Net change in fund balance - governmental fund	\$ 68,437
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Amounts reported for governmental activities in the statement of activities are different because:

In the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Depreciation expense	(153,589)
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Repayment of long-term debt and borrowing of long-term debt is reported as expenditures and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net assets. In the current year, these amounts consist of:

Bond principal retirements	130,000
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Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

Decrease in accrued interest payable	<u>1,264</u>
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Change in net assets of governmental activities	<u>\$ 46,112</u>
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Principals

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Honorable Mayor and
Members of the City Council
City of Portland
Portland, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, the discretely presented component unit, and the aggregate remaining fund information of the City of Portland as of and for the year ended June 30, 2007, which collectively comprise the City of Portland's basic financial statements, and have issued our report thereon dated December 6, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described below to be significant deficiencies in internal control over financial reporting.

2007-1 Preparation of Financial Statements in Accordance with GAAP

Condition: As part of the audit process, the City, as well as most governments, has historically relied on the independent auditors to assist in the preparation of the government-wide and fund financial statements, as well as the related notes to the financial statements, as part of its external financial reporting process. It is more cost effective to outsource the preparation of the annual financial statements to the independent auditors than to have management perform this task internally. Under the new auditing standards, this is now considered a control deficiency.

2007-1 Preparation of Financial Statements in Accordance with GAAP - continued

Criteria: Governmental entities are required to issue financial statements that are prepared in accordance with GAAP. Responsibility for the financial statements rests with the City's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal accounting records), and (2) reporting government-wide and fund financial statements, including the related note disclosures (i.e., external financial reporting).

Effect: The City relies, in part, on the independent auditors for assistance with the preparation of annual financial statements and related notes to the financial statements in accordance with GAAP. This reliance makes the independent auditors effectively part of the City's internal controls. By definition, independent auditors cannot be part of the City's internal controls.

Recommendation: We recommend the City consider providing applicable employees with the necessary resources to allow them to fully comply with the new auditing standard. Should the City choose not to address this issue, management and the Board should realize that an increased risk is present in not having the proper internal control over financial reporting.

Corrective Action Response: In the past, the City has opted to outsource the final preparation of the financial statements to the independent auditors for cost efficiency and due to time constraints on its small office staff. Due to recent changes in auditing standards, this is now considered a control deficiency.

In an effort to reduce this level of risk, the City plans to acquire the necessary resources (i.e., spreadsheets, software) to prepare the financial statements solely in-house. The auditors have graciously offered to share their GASB 34 spreadsheets and assist us in making this transition.

2007-2 Material Journal Entries

Condition: Material journal entries to properly account for transactions that occurred during the year were proposed by the auditor.

Criteria: These misstatements were not detected by the City's internal control over financial reporting. Statement on Auditing Standards No. 112 (SAS 112), Communicating Internal Control Related Matters Identified in an Audit, emphasizes that management is responsible for establishing, maintaining, and monitoring internal controls, and for the fair presentation in the financial statements of financial position, results of operations, and cash flows (when applicable), including the notes to financial statements, in conformity with U.S. generally accepted accounting principles. The auditor cannot be a part of internal controls.

Effect: The City's general ledger contained material misstatements that were not detected by management until after journal entries were proposed by the auditor.

Recommendation: We recommend that the City take steps to ensure that material journal entries are not necessary at the time future audit analysis is performed.

Corrective Action Response: During this past fiscal year, we experienced somewhat of a learning curve in our attempts to further cross-train office staff. We converted to a new fixed asset program and re-assigned certain end-of-year tasks for the first time. We have addressed these issues with the staff and believe they have been resolved. In the future, we plan to have these journal entries made and reviewed in advance to the auditors arrival.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We believe that the significant deficiencies described above as 2007-1 and 2007-2 are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Portland's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the management, the Mayor, and the City Council of the City of Portland, the pass-through grantors, and the Federal award agencies and is not intended to be, and should not be, used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

December 6, 2007